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THESIS

AN ANALYSIS OF THE SEA ENTERPRISE PROGRAM

by

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June 2005

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AN ANALYSIS OF THE SEA ENTERPRISE PROGRAM

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Submitted in partial fulfillment of the
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ABSTRACT

The possibility of realizing savings to modernize and recapitalize the US Navy is of great importance to the Department of the Navy (DON). Sea Enterprise is the vehicle for this effort. The DON operates in an increasingly smaller, dangerous, and rapidly changing world. Hence, the Navy and Marine Corps are attempting to change, adapt and transform to meet new threats to the United States in the twenty-first century.

This thesis examines the Sea Enterprise Program from its inception in June 2002 to May 2005. A number of common business, public service, and management concepts are extracted and used to analyze the effort as a whole. The goals and objectives, structures, responsibilities, processes, and results to date of Sea Enterprise are documented and recommendations are provided that may aid the acceleration of the effort.

The results of this thesis reveal some identifiable challenges and issues that have inhibited the DON's ability to realize the vision of Sea Power 21, and thus realize savings. Cultural resistance to change, onerous bureaucratic frameworks, lack of accountability, and disincentives to save are a few examples of barriers the Navy must overcome. To realize savings, recapitalize the fleet, and meet the twenty-first century threat (principally, the Global War on Terrorism (GWOT)), the Navy must address and surmount such barriers.

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I. INTRODUCTION

A. BACKGROUND

The United States Navy and Marine Corps are changing, adapting and transforming to meet new threats to the United States in the twenty-first century. Currently, the Department of the Navy (DON) is transforming in response to a new national security posture as articulated in the Department of Defense (DOD) 2001 Quadrennial Defense Review (England, 2002). Sea Power 21 is the strategic vision that serves as the vehicle for this transformation. Furthermore, Sea Enterprise is the “business” initiative of the Sea Power 21 vision to become more effective and efficient in the twenty-first century and optimize resources at every level of the chain of command.

In the past ten years, and most recently on 11 September 2001, asymmetrical threats to the United States have made it more challenging to bring the fight to our enemies. Therefore, the Department of the Navy must replace Cold War-era systems with significantly more capable sensors, networks, weapons, and platforms to increase its ability to deter and defeat enemies. Innovative concepts and technologies will integrate sea, land, air, space, and cyberspace to a greater extent than ever before. Sea Enterprise, led by the Chief of Naval Operations, is key to this effort (Proceedings, 2002). The purpose of Sea Enterprise as communicated by high level Navy leadership is:

[To] return funds to the Department of the Navy that can be re-invested in the CNO’s transformational agenda (including modernization and re-capitalization programs (Mullen, 2003)).

Admiral Michael Mullen, Vice Chief of Naval Operations

1. What is Transformation?

Indeed, transformation is about change, however not all change is necessarily transformational. Deep change is about letting go of firmly held beliefs and images of how our organization traditionally works. That is, in order to transform, the DON must relinquish old mental models and forfeit the comfort of status quo.

Deep change...requires new ways of thinking and behaving. It is change that is major in scope, discontinuous with the past and generally irreversible...Deep change means surrendering control.

Robert E. Quinn

2. Why Must the Department of the Navy Transform?

The U.S. Navy operates in an increasingly smaller, dangerous, and rapidly changing world where there is only one constant...*change* itself. In fact, the pace of change is accelerating, not diminishing with time – thus, time has become the one thing we all seem to have a lot less of (Nystrom, 2005). Therefore, change within our Navy must be accelerated in order to catch and outrun the pace of change of the twenty-first century.

Cultural resistance to change and military service parochialism have played a significant role in impeding past attempts to implement broad-based management reforms in DOD and DON alike. If the barriers to change are not removed, DOD will continue to be faced with the business-as-usual mentality and its current endeavors to bring about substantive change to the department's current flawed business operations will be unsuccessful (Kutz and Warren, 2002).

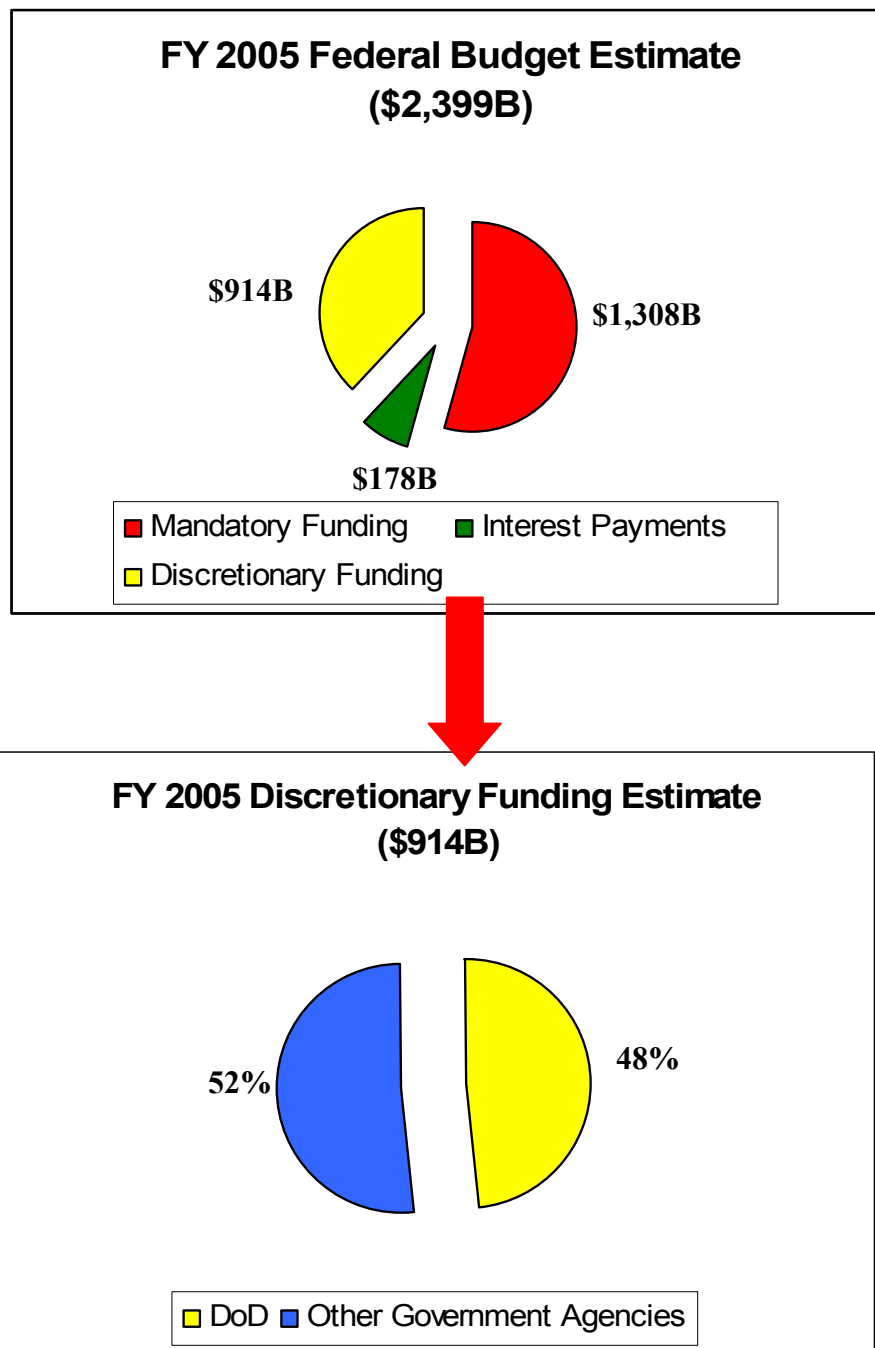
The Navy's current hierarchical structure and bureaucratic ways of doing business stifle innovation at the lower levels of the organization. Further, there is disincentive to save (as well as execute efficiently, reduce in size, and eliminate programs/activities) at all levels, otherwise known as a "spend it or lose it" mentality, which greatly hinders the Navy's goal to emerge more effective and efficient. Sea Enterprise is a vehicle to influence new attitudes and behaviors to incentivize savings in support of Sea Power 21.

The Department of the Navy's basic business structure still resembles its industrial origins: vertical task organization, centralized hierarchy, and a 1960s-era budget-driven requirements determination leftover from when Robert McNamara was Secretary of Defense (1961-1968). While [the Navy's] structure may yield effective outcomes, it does so with little attention paid to efficiency (Nystrom, 2005). Furthermore, faced with increasingly austere funding, the Navy is pressured to do more

within given resources as requirements rise and funding levels remain flat or even decline (Nystrom, 2005). The following subsections outline different perspectives that illustrate increasing operating costs, force structure trends, an aging force structure, and increasing manpower costs.

a. The Federal Budget Perspective

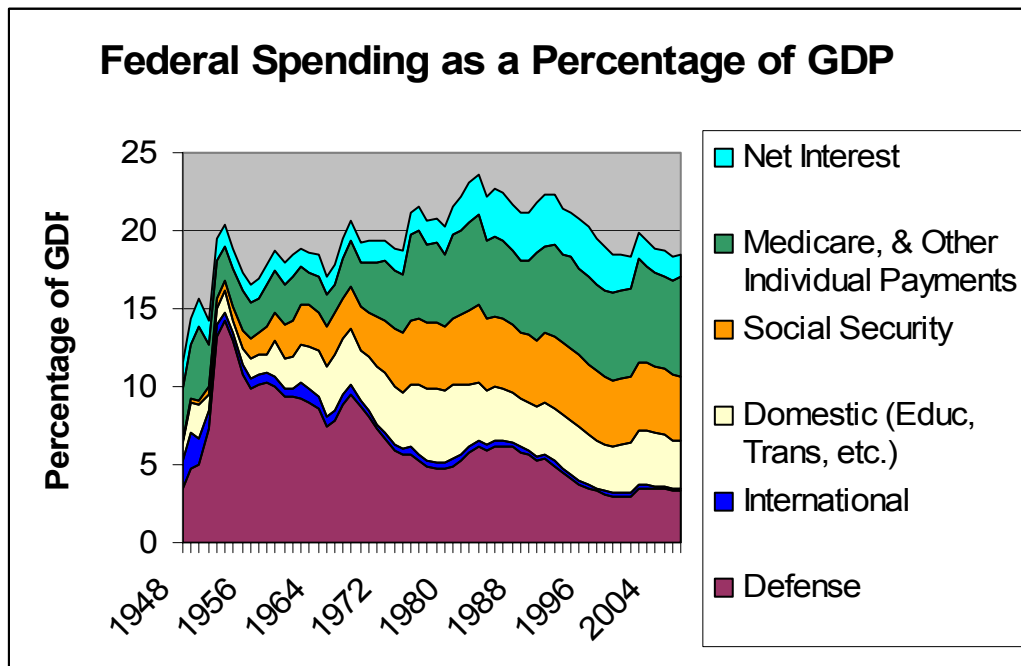
There are competing priorities within the federal budget and the Department of Defense. The federal budget is comprised of expensive priorities and the government is beginning to feel the pressure of the increasing costs. Among these federal priorities are: the cost of the Global War on Terrorism (GWOT) and war in Iraq, the need to either transform or recapitalize within the base DOD budget, the rising costs in mandatory spending (especially Medicare), and the federal deficit and associated interest costs. The global war on terror has cost the federal government approximately \$230 billion to date. Mandatory spending is increasing as a result of Social Security, healthcare entitlements, and interest on the national debt. The deficit and the rise in mandatory spending have caused the top-line within the DOD budget to be constrained. Figure 1.1 depicts how taxpayer dollars were to be spent in FY05 and the percentage of those dollars that supported the Department of Defense.



Source: Information derived from a PowerPoint brief given to the US Army, 26 February 2005: *“Sea Enterprise: Right Force, Right Readiness, Right Cost”*, delivered by Mr. Mark Honecker (N40).

Figure 1.1 Competing Priorities: A Federal Budget Perspective

However, Figure 1.2 below is provided to more clearly illustrate the competing priorities within the federal budget and associated spending trends since the 1940's. Specifically, Social Security and Medicare spending have increased while defense spending has decreased as a percentage of GDP.



Source: Joint Perspective on Defense Budget Issues; RDML Peter Daly, Deputy Director for Resources and Acquisitions (J-8)

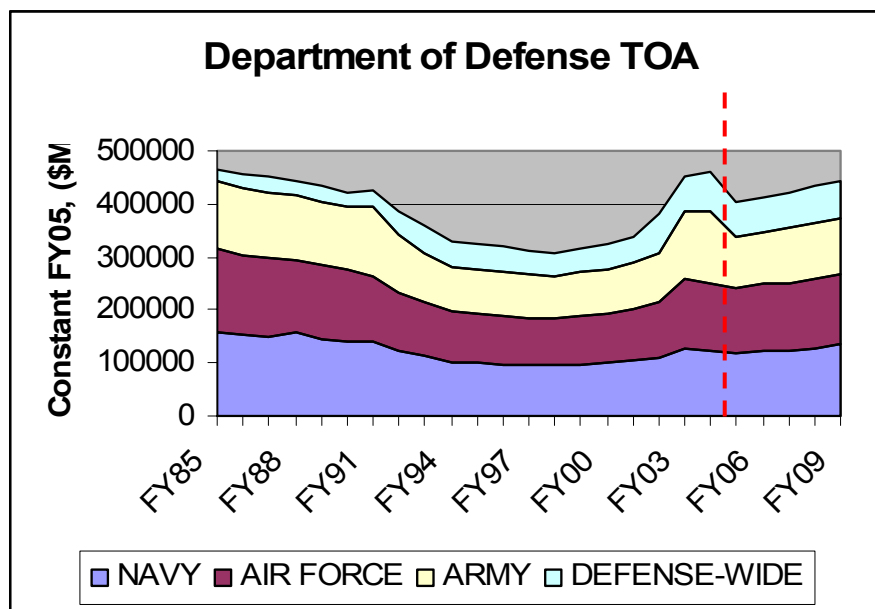
Figure 1.2 Federal Spending as a Percentage of GDP

Of particular concern is the growth expected from FY03-FY09, with the following increases projected: Social Security, a 29% increase; Medicare, a 70% increase; and Medicaid, a 53% increase (Honecker, 2005).

b. The Defense Budget Perspective

The DON will need to identify savings because the Services are getting a smaller percentage of the DOD total obligational authority (TOA). The services (Navy, Marine Corps, Army and Air Force) TOA is dropping relative to total DOD TOA; specifically, from 95% to 83.9% (Honecker, 2005). Also, as a result of the war on

terrorism and the war in Iraq, the costs to operate the Navy are increasing. Unfortunately, funding for GWOT and the war in Iraq will come at the expense of new funding for investment (Nystrom, 2005). Therefore, other funds must come from a combination of cost reducing measures in four focus areas: 1.) reduce or stop funding to non-value added programs; 2.) reduce or eliminate fixed costs by cutting underutilized infrastructure, including labor; 3.) leverage innovation in technology and process change to increase productivity, and; 4.) reduce the cost of operations (Nystrom, 2005). Furthermore, relative changes to individual service TOA tend to be on the margin. The DOD TOA allocation is shown graphically in Figure 1.3.



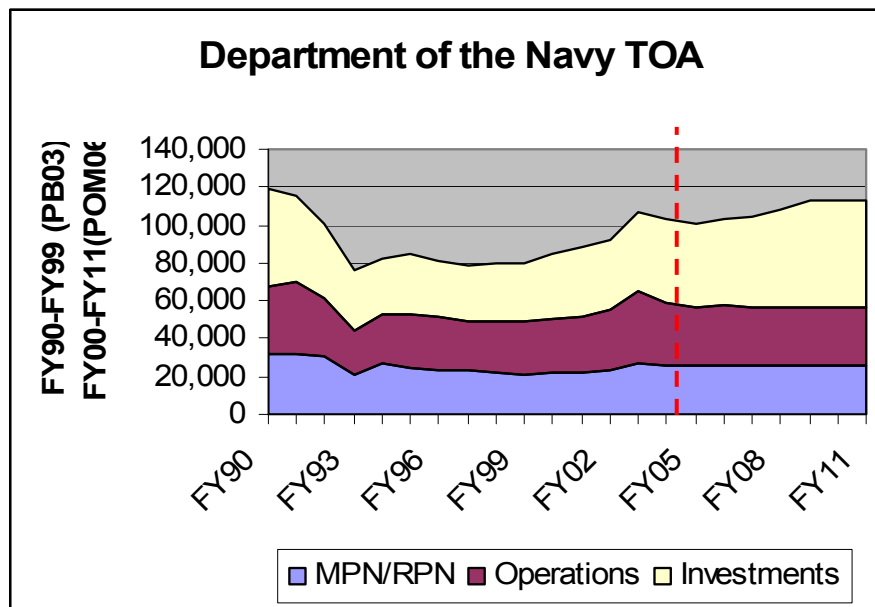
Source: Information derived from a PowerPoint brief given to the US Army, 26 February 2005: "Sea Enterprise: Right Force, Right Readiness, Right Cost", delivered by Mr. Mark Honecker (N40).

Figure 1.3 Department of Defense TOA (FY05 President's Budget Request)

c. The Navy Budget Perspective

Figure 1.4 shows the Department of the Navy TOA (FY90-FY11) and how military/reserve personnel (MPN/RPN), operations, and investment funding have changed over the time period. As such, the DON budget perspective for the period can be misleading. Figure 1.4 illustrates the assumption that in the out-years there will be a

reduction in operating accounts, and an increase in acquisition accounts. However, the Navy has typically experienced the opposite.

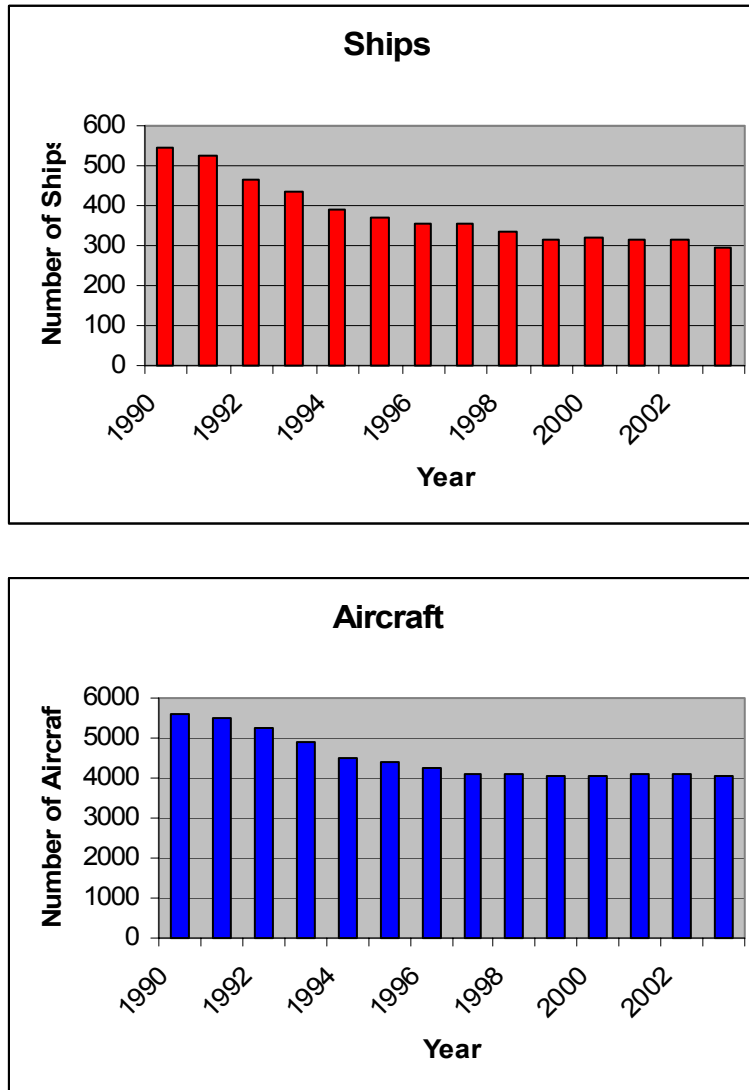


Source: Information derived from a PowerPoint brief given to the US Army, 26 February 2005: "Sea Enterprise: Right Force, Right Readiness, Right Cost", delivered by Mr. Mark Honecker (N40).

Figure 1.4 Department of the Navy TOA

d. Force Structure Trends

Over the time spanning from FY90-FY03, the Navy force structure has experienced a 47% reduction in ships, and a 29% reduction in aircraft (Honecker, 2005). However, the Navy is in the process of transforming the fleet to become more adaptable, multi-mission capable and require less manpower. Most of the planned purchases will occur in the surface combatant force. As such, the Navy has planned to purchase of 50-60 Littoral Combat Ships (LCS) and initially 4 DD(X) (Flight 0) ships. Navy force structure (ships and aircraft) trends are depicted graphically in Figure 1.5.



Source: Information derived from a PowerPoint brief given to the US Army, 26 February 2005: *“Sea Enterprise: Right Force, Right Readiness, Right Cost”*, delivered by Mr. Mark Honecker (N40).

Figure 1.5 Force Structure Trends FY90-FY03: Ships and Aircraft

The aging of the force structure also creates a concern. Years of underinvestment in modernization and new acquisition has resulted in an aging force structure. This state of affairs has resulted in an increase in operating costs. For example, the average fixed wing aircraft age is 18 years, and the average ship age is 16 years (Honecker, 2005).

e. Manpower Cost Trends

The cost per person in the Navy has risen dramatically. Since 1991, civilian manpower costs have increased 18.4% and military personnel costs have increased 21.7%, despite end strength reductions of 43% and 36% respectively. Today, total manpower costs account for an astounding 65% of the Navy's TOA (Nystrom, 2005).

3. What is the Department of the Navy Transforming From?

The Department of the Navy is transforming from an Industrial-Age Navy and the organizational structures, processes, and culture that accompany it. The desired result is a greater organizational capacity to respond to future changes in external circumstances. Additionally, the nature of the Navy organization as a public entity charged with maritime dominance presents its own unique barriers/challenges (Nystrom, 2005).

4. What is the Department of the Navy Transforming To?

Sea Power 21 provides the strategic framework to reshape the U.S. Naval force¹. It is more than just a vision, it is about creating the flexibility the DON needs for an uncertain future. The Sea Power 21 vision communicates to the Department the necessity for change and mastering its evolution and sustainment, thus creating a stronger, more flexible, and more capable Navy.

Three capabilities lie at the heart of Sea Power 21: Sea Strike, Sea Shield, and Sea Basing enabled by ForceNet. Sea Strike is the ability to project precise and persistent offensive power from the sea; Sea Shield extends defensive assurance throughout the world; and Sea Basing enhances operational interdependence and support for the joint force. These concepts build upon the solid foundation of the Navy-Marine Corps team, leverage U.S. asymmetric advantages, and strengthen joint combat effectiveness (Clark, 2002).

¹ Sea Power 21 was first introduced by the CNO, Admiral Vern Clark, at the Naval War College in Newport, Rhode Island in June 2002. It was then formally introduced in the Naval Transformational Roadmap in 2003 per guidance set forth in the Transformation Planning Guidance, April 2003.

Further, the enabling processes depicted in Figure 1.6 represent the delivery mechanisms of transformation. Sea Trial is the vehicle for warfare innovation and technology development; Sea Warrior reflects the Navy's commitment to the growth and development of people; and Sea Enterprise represents a recapitalization effort, where savings are the result of doing business better. Although this thesis is focused mainly on Sea Enterprise, it is critical to understand that these three enabling processes are inextricably linked together – one cannot be successful without the other.



Source: <http://www.chinfo.navy.mil/navpalib/cno>

Figure 1.6 Sea Power 21

Sea Enterprise is the cornerstone of the business revolution within the Department of the Navy. The effort seeks to improve organizational alignment, refine requirements, and reinvest savings to buy the platforms and systems needed to transform the Navy. Drawing on lessons from the business revolution, Sea Enterprise will reduce overhead, streamline processes, substitute technology for manpower, and create incentives for positive change (Clark, 2002). As such, Sea Enterprise has established initiatives to help identify savings throughout the Department of the Navy to recapitalize and modernize our Naval Force. Perhaps the single most telling measure of success will be the Navy's

collective willingness to harvest savings for recapitalization. Also, in this thesis, initiatives are defined as efficiencies that reduce costs while providing the same or better levels of capability.

B. RESEARCH QUESTIONS

This thesis aims to answer some basic questions regarding the ability of the U.S. Navy to realize savings as a result of Sea Enterprise initiatives. It examines whether a culture has been created or exists that is capable of realizing savings. Finally, this thesis will explore changes that could be implemented to accelerate the Sea Enterprise effort to realize savings, create a culture capable of saving, and transform and modernize the U.S. Naval force.

1. Primary Questions

The primary focus of this research is to answer the following questions:

- Is the Department of the Navy realizing the savings forecasted for the various Sea Enterprise initiatives?
- If savings are not being realized, are there identifiable challenges/issues with the effort?

2. Secondary Questions

In order to answer the primary questions there are several secondary questions to answer. These questions include:

- Has the DON created a culture capable of implementing these new business initiatives?
- Is the DON capable of saving the money considering current structure, laws and policies and its incentive system?
- What are some specific examples of implemented business practices that have proven successful in achieving the goals of Sea Enterprise?
- What changes need to occur for successful implementation of the initiatives and savings to be realized? That is, can Sea Enterprise get the law changed to facilitate savings needed for recapitalization?

C. BENEFIT OF STUDY

This thesis contributes to a greater awareness of the many difficulties and issues encountered in attempting to transform the United States Navy. There are leadership, cultural, organizational structure, incentive and various other barriers to efficiency that must be overcome. A clear understanding of these barriers is essential if transformation is to be achieved. This thesis provides an analysis of the Sea Enterprise effort and the difficulties associated with becoming a more effective and efficient Naval force.

It is important to understand that the purpose of this thesis is not to present a case study of Sea Enterprise. Although this research endeavors to identify some specific examples of the successes of implemented business practices, its primary purpose is not to analyze and report on such successes. Rather, the primary purpose of this thesis is to determine if the Department of the Navy has realized the savings forecasted for the various Sea Enterprise initiatives and to surface the various fundamental issues and challenges that may be associated with the effort. As a result, this research aims to provide some recommendations for consideration to help accelerate the effort as a whole. Further, it establishes the groundwork for future researchers interested in helping to identify ways to operate in a more business-like manner; that is, conduct business *better, faster, and cheaper*.

In addition to DOD guidance, testimonies, briefings, and a business literature review, the analysis provided here was based on several relevant sources, including interviews with CNO staff members (OPNAV N40, OPNAV N80), and other senior DON military and civilian personnel who have an interest in and a superior knowledge of the Navy's "business." The results of this research are intended to provide greater awareness and knowledge of the journey ahead. Further, this research intends to provide positive tangible benefit to the Department of the Navy as a reference to be consulted when exploring lessons learned and when deciding on future initiatives to transform, recapitalize, and modernize the Naval force.

D. THESIS SCOPE

The period of relevance for this thesis covers the current “life” of Sea Enterprise. Data collected spanned the approximate period of June 2002 through May 2005. Based on expected Spring/Summer 2005 turnover of Sea Enterprise senior leadership² there will be changes that occur in both policy and leadership responsibility. Such changes are not considered in this thesis.

E. METHODOLOGY

A literature review of relevant business, leadership, and transformational topics was conducted. Books, memorandums, briefs, testimonies, instructions, internet sites, magazine and journal articles, among others were reviewed. A review of previous research conducted on cutback management was also undertaken. Further, the detailed “process” of harvesting savings, to include a unifying definition of when savings are, in fact, considered realized savings, was identified and examined by the author.

A series of personal interviews of high level military and civilian leaders was conducted. In general, interviewees were initially contacted by email. Through email correspondence, telephone interviews were scheduled. Overall, approximately fourteen people were contacted for interviews. However, some interviewees were contacted several times by telephone. Additionally, some correspondences (after initial interviews were conducted) resulted in several (up to ten or fifteen in some cases) email exchanges with high level officials. In all cases, respondents held elite and specialized positions with close ties to Sea Enterprise. In all, more than 100 exchanges were made by email, telephone, and in person. Finally, based on a thorough literature review and data collection, an analysis was conducted to evaluate the ability of the United States Navy to realize projected savings and how such efforts may have been affected by uniformity of effort, awareness, organizational culture, accountability, fiscal and organizational incentives (or disincentives), and leadership.

² Senior leadership turnover is to include turnover of Admiral Vern Clark, who will be relieved by Admiral Michael Mullen as CNO this summer, 2005 (pending Congressional approval) and Mr. Pat Tamburrino (N8B and co-chair of the Corporate Business Council), who will be relieved by Ms. Mary Jo Decker in Spring 2005.

F. ORGANIZATION OF STUDY

Chapter II provides a literature review to frame business concepts that are applied to the analysis of the Sea Enterprise effort. Overall, the chapter provides background information to lay the foundation for the issues raised throughout the remainder of this thesis. With respect to the broad issue of the ability of the Department of the Navy to identify and realize savings, it is shown to be a highly complex matter. As the issue is explored it is seen to be a highly interrelated mix of managerial issues such as organizational culture, leadership, execution and cutback management. Such a mix requires careful examination in order to resolve the relevance and interdependencies among many of the important issues required for deep and sustained change; thus creating the transformation necessary to realize savings throughout the Department of the Navy.

Chapter III provides a brief overview of the Sea Enterprise effort from its inception to the present. The Sea Enterprise effort endeavors to foster innovation at the lowest level, increase productivity (that is, properly assign costs and measure output), maximize efficiency while maintaining effectiveness, and thus identify and realize savings in support of Sea Power 21. A unique and dynamic set of goals and objectives, structures, responsibilities, and processes present a range of issues that can and do impact the effort as a whole.

Chapter IV provides the analysis necessary to respond to the research questions raised previously in this chapter. First, the “process” of realizing savings is identified to analyze the various identifiable obstacles to reaping *harvested* savings. It is a course of action that requires communication, clarity of purpose, and consensus and perhaps most importantly, accountability and execution. Second, the chapter presents an analysis of the Sea Enterprise effort to change the existing culture of *command and control*. Imbedded cultural norms make change management difficult within DON. Third, leadership involvement in the overall effort is discussed. Then, under the management umbrella of leadership, some examples of short-term wins are identified as a result of implemented business practices.

Chapter V presents a series of conclusions and recommendations based on the research and analysis conducted. A number of important Sea Enterprise related process, culture, and leadership issues are summarized. Further, recommendations are made for top level Navy leadership to help establish equal footing across the enterprise, a clarity of purpose, a single point of reference, and a strategy to accelerate the Sea Enterprise effort.

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II. LITERATURE REVIEW

A. INTRODUCTION

This chapter provides background information on a number of subject areas in order to lay the foundation for topics raised throughout the remainder of this thesis. As a result of this literature review, a context is created for the analysis of the Sea Enterprise effort. The aim of the Sea Enterprise effort is to operate the Department of the Navy in a more business-like manner to become more efficient and maximize its resources. The following subject matter will help frame business, public service, and management concepts that can be applied to the Department of the Navy's endeavors.

This chapter begins by discussing the cultivation of organizational culture. Studies prove that the root of behavior and success within an organization stem from the culture created by its leaders. The guidance cited spans a substantial period supported by experts in the field of organizational culture and change.

The leadership role in an organization is discussed next. In addition, some past errors made by leaders in corporate America have contributed to the development of a framework to influence change within an organization. Similarly, challenges that government leaders face are applicable to and can be related to challenges faced in corporate America.

A discussion of the importance of execution within all organizations is then presented. In the past, it was assumed that organizations with the best strategies and clearly articulated visions were the most successful. In fact, even organizations that were considered to have the most experienced leadership and the "right" strategy were failing. This section further explains that execution was the missing, yet essential variable.

Finally, a section which summarizes the concept of cutback management is included in this chapter. Numerous initiatives throughout the years have been attempted to help the government identify inefficiencies. Management of retrenchment is one approach that is described.

B. ORGANIZATIONAL CULTURE

Despite efforts to incorporate business concepts in the Department of the Navy to optimize efficiency, results will not be realized unless a culture is created to embrace the initiatives. A positive organizational culture reinforces the core beliefs and behaviors that a leader desires while weakening the values and actions the leader rejects. A negative culture becomes toxic, poisoning the life of the organization and hindering any future potential for growth and/or change.

Secretary Donald Rumsfeld frequently discusses his vision to “transform” the Department of Defense. In general, transformation is an appealing concept that results in restructuring personnel, programs and processes. However, in reality, organizations are filled with old cultural norms, which make new and innovative ideas difficult to embrace (Bertrand, 2002). This situation is especially true in the defense environment where traditions and customs are important to mission accomplishment. Thus, transformation becomes a major undertaking that comes at a high price. But when it is implemented and embraced, the benefits can surpass the painstaking costs. The following paragraphs will discuss the importance of understanding what ‘culture’ is and identify theories that help support the transformation of culture.

1. Culture

The culture of an organization speaks of the values, beliefs, and behaviors that are shared by the members of the organization. While no organization has a pure culture throughout, every successful organization has a *core culture* (Schneider, 1998). The core culture is the central functioning of the organization, which shapes how the organization behaves and operates in order to succeed. It is critical that this core or lead culture is aligned with the organization’s strategy and core leadership practices (Schneider, 1998). This alignment is central to any organization’s effectiveness including that of the Department of the Navy.

Although we grow up and live in a particular culture, it is also something that we acquire (or learn) over time. According to research conducted by Bill Schneider, there are four core cultures: control, collaboration, competence and cultivation. It is important

to realize that leaders create one of these four cultures within their organizations. This is especially relevant to the Department of Defense as culture is created by top-down leadership within a bureaucratic framework. The four core cultures emerge from the following social archetypes:

- Control: military system; power motive.
- Collaboration: family and/or athletic team system; affiliation motive.
- Competence: university system; achievement motive.
- Cultivation: religious system(s); growth, or self actualization, motive.

There is a strong connection between strategy, culture, and leadership (Schneider, 1998).

These fundamental connections are shown in Table 2.1 below:

Culture	Strategy	Leadership
Control	Market share dominance Commodity or Commodity-like High distribution intensive Predictability	Directive Authoritative Conservative Cautious Definitive Commanding Firm
Collaboration	Synergistic customer relationship Close partnership with customer High customization Total solution for customer Incremental, step-by-step, relationship with customer	Team Builder First among equals Coach Participative Trust builder Integrator
Competence	Distinction Excellence Extremely unique One-of-kind offering Create market niche Constant innovation to stay ahead Typically, carriage trade markets	Standard setter Conceptual visionary Taskmaster Assertive Convincing persuader Challenger of others
Cultivation	Growth of customer Fuller realization of potential Enrichment of customer Raise the human spirit Further realization of ideals, values, higher-order purposes	Charismatic Catalyst Cultivator Commitment builder Steward Appeal to higher-level vision

Source: William E. Schneider, Ph.D. The CEO Refresher: Why Good Management Ideas Fail – The Neglected Power of Organizational Culture (May-June, 1998). Available: <http://www.refresh.com/!neglected>. Accessed: 29 Jan 2005.

Table 2.1 Strategy, Culture and Leadership Connections

Although the Department of Defense clearly falls under the control archetype, it is beneficial to discuss all four archetypes as a comparative analysis.

a. Control

The basis for the control culture is *certainty*. It fundamentally exists to ensure certainty, predictability, safety, accuracy, and dependability (Schneider, 1998). The organization as a system comes first. Accordingly, the design and framework for information and knowledge in the control culture is built essentially around the goals of the organization, and the extent to which those goals are met. This culture is centered on *organizational goal attainment*. That is, mission accomplishment takes priority (as it should), however it is accomplished at all costs, not necessarily at the *right* cost, or in the most efficient manner. This behavior undeniably resembles the culture that has been spawned from our predecessors who have praised status quo. The ideology of a culture centered on certainty and control clearly suggests a lack of innovation occurring within an organization.

b. Collaboration

The basis for the collaboration culture is *synergy*. It fundamentally exists to ensure unity, close connection with the customer, and intense dedication to the customer. The organization moves ahead through the diverse collective experience of people from inside and outside the organization. This culture is centered on *unique customer goal attainment* (Schneider, 1998).

The Department of the Navy does not work collaboratively as it is suggested here. Showing organizations how to see themselves as collaborative systems requires leadership—conscious oversight that can create a sense of organizational cohesiveness and shared vision. Such leadership breaks down the hierarchy and creates a more flat organization in which goals and a newly defined belief system are shared amongst the organization at all levels.

c. Competence

The basis for the competence culture is *distinction*. It fundamentally exists to ensure the accomplishment of unparalleled, unmatched products or services (Schneider, 1987). This is the culture of uniqueness per se, of one-of-a-kind products or services. In a competence culture, the realization of conceptual goals, particularly superior, distinctive conceptual goals thrive. The framework for information and knowledge is built around the conceptual system goals of the organization and the extent to which those goals are met. This culture is centered on *conceptual goal attainment*. Competence more appropriately describes the culture of a technology firm such as Intel and Bell Labs (Lucent Technologies) where innovation and superior products are the company's competitive advantage.

d. Cultivation

The basis for the cultivation culture is *enrichment*. It fundamentally exists to ensure the fullest growth of the customer, fulfillment of the customer's potential, and the raising up of the customer. This culture is all about the further realization of ideals, values, and higher order purposes. The key emphasis in this culture is the connection between what is espoused and what is put into operation. This culture is focused on *value-centered goal attainment* (Schneider, 1987). This culture also addresses a topic not taken into enough consideration; the gap between strategy and execution.

While not denying the appropriateness of bureaucratic control for some situations, the success of Sea Enterprise and Sea Power 21 is in part predicated on the removal/redesign of traditional *control* systems in our appraisals, rewards, promotion, and incentives that are bureaucratic in manner, and inflexible to differing conditions (Nystrom, 2005). Therefore, top level Navy leadership should consider the values, beliefs, and behaviors of other core cultures that would help best achieve desired actions by our sailors and decision makers.

2. Strategies for Effecting Cultural Change

"Changing the culture of any organization is not easy. Changing the culture of an institution as large, complex, and deeply rooted as the U.S. military, would be extremely difficult. Rather than seeking to change the culture of the services directly, advocates of change may want to innovate within existing cultures or foster new ones that are more supportive of change (Mahnken, 2004)".

It is an important distinction to make between changing the entire culture directly and fostering a new culture that will be more supportive of a new way of thinking. Changing a culture, altering behaviors and attitudes, does not necessarily result in changing everything an organization does, but rather changes the way it thinks about what it does and how it does it. E.H. Schein, a leading theorist on organizational culture, through years of research has developed some proven strategies for effecting cultural change. These strategies are outlined below (Schein, 1999):

- Unfreezing the old culture and creating motivation to change.
- Capitalizing on propitious (benevolent) moments - problems, opportunities, changed circumstances, and/or accumulated excesses or deficiencies of the past.
- Making the change target concrete and clear.
- Maintaining some continuity with the past.
- Creating psychological safety through a compelling positive vision, formal training, informal training of relevant groups and teams, providing coaches and positive role models, employee involvement and opportunities for input and feedback, support groups, and addressing fears and losses head on.
- Selecting, modifying, and creating appropriate cultural forms, behaviors, artifacts, and socialization tactics.
- Cultivating charismatic leaders.
- Having a realistic and solid transition plan.
- Exercising risk management by understanding and addressing the risks and the benefits as well as the potential inequitable distribution of these risks and benefits.

Careful consideration of these change strategies may help foster the culture necessary to invoke change.

The culture of any organization is formulated and impacted by several variables. Perhaps the most prominent and obvious variable is the *leader* of the organization. All things flow from the lead. Larry Bossidy, chairman and former CEO of Honeywell International and a well-renown author, states “success in executing a cultural change depends first and foremost on having the right people (Bossidy and Charan, 2002).” That is, the values of the leader of any organization are reflected in the culture of the organization. As such, it is logical to discuss next leadership’s role in the transformation effort in an organization.

C. LEADERSHIP

Large-scale organizational transformation is, at best, a developing art that has yet to produce any clear formulas for success, but more and more attention is being turned to senior leadership as the principle agents of change and adaptation. Within the Department of Defense there have been many efforts to effect change that have carried several different titles to include Total Quality Management and down-sizing (right-sizing). The following paragraphs provide a fresh look at leadership and how leaders can instill change throughout a large organization.

1. Leadership at All Levels

There must be a sense of conviction and energy of the overall vision of the Navy at every level of the organization. This level of commitment has been created at such large corporations as General Electric, as indicated in the below quote. This kind of innovative thinking must be infused into the entire Naval workforce to ensure long-term survival in an ever-changing environment.

We never shut up about the great things that lie ahead of a company whose people get up every morning and come to work knowing—convinced—that there is a better way of doing everything they do—and determined to find out who knows that way and how they can learn it.

It is this learning, sharing, and action-driven culture, when laid across the diverse businesses of GE, that gives us our true advantage, an advantage single-industry companies can never match—what we call “horizontal learning” across more than 250 diverse, global GE business segments.³

John P. Kotter has been widely cited in his research regarding leadership and management. He found that the management functions – coping with complexity, planning and budgeting, organizing and staffing, and controlling and problem-solving – were needed, but not a substitute for leadership functions – coping with change, setting direction, aligning people, motivating and inspiring (Cohen, 2002). Management is about making the status quo function well (e.g., getting the sailors to morning quarters on time), while leadership is about conceiving, inspiring, and initiating change (e.g., creating a culture incentivized to save rather than spend). The distinction between management and leadership is an important one, especially when considering the involvement of leadership at each level in the chain of command necessary to realize the goals set forth by Sea Enterprise.

The kind of determination that is required to keep finding new and better ways of conducting business that has characterized General Electric and a few other large corporations is necessary at all levels of the organization. Leaders cannot merely manage from the top, but must be involved in all kinds of jobs, constantly examining execution and performance-based metrics. Further, these results should initiate the development of improvements to already achieved efficiencies. Leadership must continue to seek better ways of doing business; do more with less and attempt to stay ahead of the ever-changing environment.

It is impossible for top level leadership to know *everything* considering the rapid advancements in technology and associated applications, the nuances of the workforce, and the overall attitude of the workforce. Therefore, the top level leader must rely heavily on leadership throughout the organization to contribute to fostering a culture for change and motivating sailors on an everyday basis. Infusing initiative – and the capacity to develop and deliver on it – is not however, easily accomplished. Not all individuals have the drive or know-how to deliver effective initiative, and not all organizational

³ General Electric Annual Report, 1996; abstracted from Cohen, 2002.

practices and procedures encourage it.⁴ Even when the talent exists, many organizations do things that serve to actively discourage effective initiative, for a host of reasons (Cohen, 2002). One significant reason this may be true within the Department of the Navy is the bureaucratic manner in which it operates.

2. Conquering Bureaucracy

Bureaucracy was developed to solve the problem of how to get work done by people who might not have the skills, experience, motivation, or training to make wide-ranging decisions, but who could do work that was carefully prescribed and circumscribed (Cohen, 2002). By limiting the scope of latitude through defined positions, rules, and procedures, organizations could leverage the talents of those few at the top who had demonstrated their wisdom (or could deliver to a governing body's specifications). The structure and tradition serves to enable diverse units to coordinate their work according to allocated powers. It also allows scaling up to a very large size when that is necessary. No better way to accomplish work in stable environments has ever been developed. In fact, that is why Kotter refers to "managing" as a necessary component of dealing with complexity (Kotter, 1990).

However, in a changing world (to include more sophisticated technologies and increased capabilities of U.S. adversaries who are highly mobile and unpredictable) with high uncertainty and unpredictability, traditional organizations and processes are too slow for many necessary activities. Bureaucracy, when executed well, can add value, yet may constrain needed components of the organization (Cohen, 2002). Thus, the commitment of leadership to developing and sustaining corporate innovation has the potential to help transform organizations and unleash talent.

3. Change Management

In the change process, it is critical to identify what an organization is changing from and then, what it is changing to. Therefore, the initial organizational diagnosis is a critical precursor to the next step: the development of a change strategy. John P. Kotter

⁴ This phenomenon is being addressed through implementation of the Navy's Human Capital Strategy.

introduces some ideas of leading change drawn from conferences involving highly visible scholars and consultants. His findings represent a wide range of disciplines from psychiatry to social psychology and economics.

The most general lesson to be learned from the more successful cases in corporate America is that the change process goes through a series of phases that, in total, usually require a considerable amount of time. Skipping steps creates only the illusion of speed and not the long-term effect leadership desires. A second lesson is that critical mistakes in any phase can have a devastating impact, slowing momentum and negating hard-won gains (Kotter, 1988). Oftentimes, organizations make an error (or errors) throughout the change process that inhibits expected or desired results. The following paragraphs will summarize some errors commonly made in making fundamental changes in how business is conducted in order to help cope with a new, more challenging market environment which, as one will see, is synonymous with achieving greater efficiency within the Department of the Navy.

a. Not Establishing Enough Sense of Urgency

Most successful change efforts begin when certain individuals or groups start to look hard at a company's competitive situation, market position, technological trends, and financial performance (Kotter, 1988). That is, organizations typically develop transformation strategies when the competitive environment is evolving at a faster rate than the organization is. Organizational leaders then find ways to communicate the crisis, potential crisis, or great opportunity. The first step in the transformational process is a critical one because it requires the aggressive cooperation of many individuals. Without top-level motivation and buy-in, people won't help and the effort will never leave the ground.

Compared to other steps in the change process, step one may appear to be easy. However, it is not. "Well over 50 percent of the companies I watched fail in this first phase. Sometimes executives underestimate how hard it can be to drive people out of their comfort zones. Sometimes they grossly overestimate how successful they have

been already been in increasing organizational urgency. In many cases executives become paralyzed by the down-side possibilities [of change] (Kotter, 1990).”

A “paralyzed” senior management team often results from too many managers and not enough leaders. Management’s mandate is to minimize risk and keep the current system operating. That is, transformation requires leaders to manage both current and future readiness. Leaders must incur some level of risk in the present to realize change in the future. Phase one in a renewal process typically goes nowhere until enough real leaders are promoted and hired into senior-level jobs (Kotter, 1990).

Transformations often begin, and begin well, when an organization has a new head who is a good leader who sees the need for major change. If the renewal target is the entire organization, then the CEO is key. The purpose of all this activity, in the words of one former CEO of a large European company, is “to make the status quo seem more dangerous than launching into the unknown (Kotter, 1990).”

So then, when is the urgency rate high enough? It has been determined through many studies that when about 75 percent of the organization’s management is honestly convinced that business as usual is totally unacceptable, it can be determined that urgency is high enough. Anything less can produce very serious problems later on in the process.

b. Not Creating a Powerful Guiding Coalition

Major renewal programs often start with just one or two people. In cases of successful transformation efforts, the leadership coalition grows over time. But whenever some minimum mass is not achieved early in the effort, nothing much worthwhile happens (Kotter, 1990).

Creating a coalition within the Navy requires the CNO to determine which of his senior leaders are committed to increased efficiency through renewal. This group does not need to include all of the Navy’s top leadership because some simply will not

buy in, at least not at first. But in the most successful cases, the coalition is always pretty powerful in terms of titles, information and expertise, reputations, and relationships (Kotter, 1990).

Since the guiding coalition includes members who are not part of senior management, by definition, it tends to operate within and without the normal hierarchy. Although not typical, it is clearly necessary to penetrate into other layers of leadership in order to be successful. If the existing hierarchy were working well, there would be no need for a major transformation. But if the current system is not working, reform generally demands outside activity (buy in) outside of formal boundaries, expectations, and protocol (Kotter, 1990). This may be a difficult realization for the Navy, but necessary nonetheless.

Incorporating phase one, a high sense of urgency within the managerial ranks is essential to forming a guiding coalition. Someone must continue to communicate with other managers, identify problems and opportunities, and create a minimum level of trust. Off-site retreats for two or three days are one popular vehicle for accomplishing this task. GE has embraced this idea and has found it to be instrumental in its successes.

Organizations that fail in creating a guiding coalition typically underestimate the need for a guiding coalition in effecting change. No matter how capable or dedicated the staff head, groups without strong line leadership never achieve the power that is required. In such cases, the opposition (those senior level managers that do not buy in) will unite and change will slow down and eventually come to a halt.

c. Lacking a Vision

Successful transformations involve a guiding coalition development of a picture of the future that is relatively easy to communicate and appeals to customers, stakeholders and employees. A vision says something that helps clarify the direction in which an organization needs to move (Kotter, 1990). The first draft is typically written by a single individual. Although a bit blurry at first, the guiding coalition will reshape

and work on it for an extensive period of time. Through tough analytical thinking and maybe a little dreaming, a more clear and focused vision emerges. Eventually, a strategy to achieve the vision is developed.

Without a sensible vision, the multiple change efforts within the organization could become confusing and incompatible to change. For example, without the Navy clearly identifying what end state is desired, the Human Capital Strategy, 360-degree feedback program, and Sea Enterprise for that matter, will not add up in a meaningful way.

Policies, goals, methods, and deadlines can become mind-numbing without a clear sense of vision. Hundreds of pages of paperwork describing the change effort will cause confusion and a sense of alienation among employees. The thick documents do not rally change or promote buy in; in fact, quite the opposite is most often the case. Kotter has a useful rule of thumb, which is, if you can't communicate the vision to someone in five minutes or less and get a reaction that signifies both understanding and interest, you are not yet done with this phase of the transformation process (Kotter, 1990).

d. Under-communicating the Vision by a Factor of Ten

There are three patterns that are most common in change strategy. All three patterns describe how vision is often either under-communicated or mis-communicated. In the first example, a group actually does develop a pretty good transformation vision and then proceeds to communicate it by holding a single meeting or sending out a single communication. Having used about .0001 percent of the yearly intra-company communication, the senior level group is startled that few people seem to understand the new approach (Kotter, 1990). In this case, the vision is under-communicated, and therefore change will not be executed by employees. In the second example, the head of the organization spends a considerable amount of time making speeches to employee groups, but most people still do not get it. In this case, an attempt was made to deliver the vision, but it obviously still lacks clarity for employee understanding and buy in. In the third example, much more effort goes into newsletters

and speeches, but some very visible senior executives still behave in ways antithetical to the vision. The net result in this case is that cynicism among the troops goes up while belief in the communication goes down (Kotter, 1990). This reemphasizes the importance of creating a guiding coalition with a belief in the vision.

Transformation is possible only when hundreds or thousands of people (depending on the size of the organization) are willing to help. In many cases, these people will need to make short-term sacrifices. That is, even if people are unhappy with the status quo, they will be unwilling to help if they do not believe in the organization's vision. Therefore, without a significant amount of credible communication, the hearts and minds of the employees will not be captured (Kotter, 1990).

Executives who communicate well incorporate messages of the organization's vision during performance appraisals. In the review of a division's quarterly performance (such as the CNO's Echelon II Reviews to be discussed in Chapter III), they not only talk about the numbers, but how those numbers and other efforts made by the division can be translated into renewal goals (transformation efforts).

In successful transformation efforts, the vision is communicated across a broad spectrum of distribution channels. Boring and unread newsletters are turned into lively readings flaunting new initiatives and success stories throughout the organization. The vision is further communicated through executive education that focuses on business problems and methodologies and the new vision. Also, the vision can be communicated in the form of individual or unit awards. Being recognized for outstanding results as a reflection of commitment to the vision (thus, change strategy) can communicate to others the importance of the initiative and the recognition it is getting from top level management. The guiding principle is: use every possible channel, especially those that are being wasted on nonessential information (Kotter, 1990).

Perhaps most importantly, senior level management must learn to "walk the talk." They must consciously attempt to become a living symbol of the new corporate culture (Kotter, 1990). In many large and bureaucratic organizations, people become very set in their ways. However, when the vision is clearly understood and strategy

adopted, such a change is possible. A high level of urgency aids this process, as well as being part of a guiding coalition. It is through this guiding coalition and continuous communication of the vision that desired behaviors are reinforced. This positively effects change in peers and subordinates alike.

Communication comes in both words and deeds, and the latter are most often the most powerful form. Nothing undermines change more than behavior by important individuals that is inconsistent with their words (Kotter, 1990).

e. Not Removing Obstacles to the New Vision

Successful transformations begin to involve large numbers of people as the process progresses. More employees become involved in developing new processes, approaches or ideas for change. Additionally, they provide leadership to others to foster a culture of change within their own purview. The more people involved, the better the outcome.

Within the guiding coalition, effective communication of the vision could result in positive action by other employees. However, communication alone is not sufficient. Transformation also requires the removal of barriers to change. That is, ideas, organizational structures, policies, status quo, among other things create barriers to change. Sometimes these barriers reside in the head of the employee, however it is the responsibility of management to convince the employee that their external barriers do not exist and to remove them if they do exist. Unfortunately, and in most cases, the barriers are very real.

There are many examples of barriers to change. Sometimes the barrier is the organizational structure: narrow job categories can seriously undermine efforts to increase efficiency or innovation at the lower levels of the organization. Sometimes compensation or performance-appraisal systems make people choose between the new vision and their own self-interests (Kotter, 1990). That is, in the context of the Navy, self-interested thoughts include “who signs my Fitrep” and “what do I need to do to get promoted?” If acting, leading and communicating in support of the new vision is not a factor in the performance evaluation, then lower level leaders will be more apt to act in

their own self-interests. Perhaps the worst example of all is a boss who refuses to change and who makes demands that are inconsistent with the overall effort (Kotter, 1990).

In the first half of a transformation, no organization has the momentum, power or time to get rid of all barriers (Kotter, 1990). However, the big and tangible ones must be addressed and removed. Action is essential to ensure others feel empowered to create change and to maintain credibility amongst employees that management is dedicated to the change effort.

f. Not Systematically Planning and Creating Short-Term Wins

Real transformation takes time, and a renewal effort risks losing momentum if there are no short-term goals to meet and celebrate (Kotter, 1990). Without short-term wins, too many people give up too soon and join the ranks of those resisting change. Short-term wins or gains give those dedicated to transformation tangible results of their own efforts, thus creating a greater following and innovation throughout the workplace.

Creating short-term wins is different than hoping for short-term wins. In a successful transformation, managers actively look for ways to obtain clear performance improvements; that is, establish goals in the yearly planning system, achieve the objectives, and reward the people involved with recognition, promotions, and even money. Short-term wins with respect to the Navy's transformational efforts are further discussed in Chapter IV.

Managers often complain about being forced to create short-term wins, but studies have shown that pressure can be a useful element in a change effort (Kotter, 1990). It is important to keep short-term gains as part of the overall strategy because when people realize that change will take a long time, interest level drops. Therefore, commitment to short-term gains keeps the urgency level up and forces analytical thinking that can clarify or revise visions.

g. Declaring Victory Too Soon

Although celebrating a short-term win is fine, declaring a victory too soon can be catastrophic. In the early stages, new approaches are fragile and can break easily. Large changes such as an organization's culture may take five to ten years (or more) to realize (Kotter, 1990).

Typically, problems arise in the early phases: the urgency level is not intense enough, the guiding coalition is not powerful enough, and the vision is not clear enough. But it is the premature declaration of victory that halts the momentum (Kotter, 1990). Then, the powerful forces associated with tradition (status quo) take over.

Instead of declaring victory, leaders of successful efforts use the credibility afforded by short-term wins to tackle even bigger problems (Kotter, 1990). Structures and systems that are not in keeping with the plans for change are attacked. New approaches and developments larger than the initial efforts are formed. Leadership also realizes that change will take years and not months. Therefore, short-term wins are used as a vehicle for motivation and recognition, and must not be confused with declaring the war won.

h. Not Anchoring Changes in the Corporation's Culture

Change strategies must become deeply rooted in an organization's culture. In the final analysis, when the original change strategies are referred to as "the way we do things around here", it can be assured that the change will stick. Until new behaviors are rooted in social norms and shared values, they are subject to degradation as soon as the pressure is removed (Kotter, 1990). However, it is important that 'flexible anchoring' occur within an organization. If a culture is not flexible to continuous change then status quo can be reestablished.

Two factors are particularly influential in institutionalizing change in corporate culture. The first is a conscious attempt to show people how the new approaches, behaviors, and attitudes have helped improve performance (Kotter, 1990). Communication is paramount in showing employees how their individual efforts have

increased overall performance (and in the case of the Navy, the implementation of Sea Enterprise initiatives that may lead to efficiencies). The second factor is taking sufficient time to make sure that the next generation of top management really does personify the new approach (Kotter, 1990).⁵ One bad succession decision at the top of an organization can undermine perhaps years of work. In the most successful cases, the champion of change was the retiring executive (Kotter, 1990).

The above paragraphs outline the most commonly made errors that lead to ineffective or short-lived change. There are still more mistakes that organizations and leadership alike can make, but these eight are the most prominent. Table 2.2 (next page) translates these errors into steps to successfully transform an organization.

⁵ A similar question is valid in the U.S. Navy with the relief of the CNO (summer 2005) drawing near.

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1. Establishing a Sense of Urgency
 - Examining market and competitive realities
 - Identifying and discussing crises, potential crises, or major opportunities
 2. Forming a Powerful Guiding Coalition
 - Assembling a group with enough power to lead the change effort
 - Encouraging the group to work together as a team
 3. Creating a Vision
 - Creating a Vision to help direct the change effort
 - Developing strategies for achieving that vision
 4. Communication the Vision
 - Using every vehicle possible to communicate the new vision and strategies
 - Teaching new behaviors by the example of the guiding coalition
 5. Empowering Others to Act on the Vision
 - Getting rid of obstacles to change
 - Changing systems or structures that seriously undermine the vision
 - Encouraging risk taking and nontraditional ideas, activities, and actions
 6. Planning for and Creating Short-Term Wins
 - Planning for visible performance improvements
 - Creating those improvements
 - Recognizing and rewarding employees involved in the improvements
 7. Consolidation Improvements and Producing Still More Change
 - Using increased credibility to change systems, structures, and policies that don't fit the vision
 - Hiring, promoting, and developing employees who can implement the vision
 - Reinvigorating the process with the new projects, themes, and change agents
 8. Institutionalizing New Approaches
 - Articulating the connections between the new behaviors and corporate success
 - Developing the means to ensure leadership development and succession
-

Source: John P. Kotter's *Leading Change* in *The Leader's Change Handbook*, 1999.

Table 2.2 Eight Steps to Transforming Your Organization

4. Shift in Leadership Traits

A traditional view of leadership is based on the belief that people must be coerced into working because they would not choose to do so of their own free will. Another view is based on the growing belief that the Navy provides the means for development, personal growth and self-actualization; therefore, people will be intrinsically motivated to perform the tasks requested of them (Nystrom, 2005). People within the Navy are changing and evolving, and so too is the art of “getting things done.” The leader must evolve with the people who are more educated, capable, and valuable. As the traits of the people change, the leadership traits must also change. Table 2.3 below summarizes the shift in leadership traits.

Old Expectations of Leaders	New Expectations of Leaders
1. Get results by directing people and getting compliance	1. Get results by involving people and getting commitment
2. Create strong followers who respect authority	2. Encourage people to think, to initiate, to develop autonomy
3. Get people to follow policy and procedure	3. Get people to respond to changing situations in ways that are consistent with stated values and expectations
4. Develop individual strengths within department	4. Develop strengths within and across work teams
5. Implement orders for the above (in the organization)	5. Accept responsibility for their own leadership
6. Be responsible for the actions of the work unit	6. Be responsive to the needs of the work unit
7. Be excellent at the technical work performed in the department	7. Be excellent at the interpersonal aspects of the work unit
8. Control people to produce the highest possible output	8. Empower people to produce the highest possible output

Source: “360-Degree Feedback: A Powerful Tool for Leadership Development and Performance Appraisal”, by CDR David C. Nystrom; abstracted from: Pasmore, William. Designing Effective Organizations: The Sociotechnical Systems Perspective. John Wiley and Sons; New York, NY, 1988

Table 2.3 Shift in Leadership Traits

D. EXECUTION

It recent years, even large organizations with clearly articulated visions and strategies have failed. Brilliant CEOs with break-through ideas have failed. In some instances, innovative and ground-breaking technology never saw the light of day. A common thread of these failures is a lack of execution. As a large organization attempting to effect transformational efforts throughout its department, the United States Navy must learn from the mistakes made by other large organizations (public or private). As articulated in the book titled “Execution” by Larry Bossidy and Ram Charan, execution is:

1. The missing link.
2. The main reason companies fall short of their promises.
3. The gap between what a company’s leaders want to achieve and the ability of their organizations to deliver it.
4. Not simply tactics, but a system of getting things done through questioning, analysis, and follow-through. A discipline for meshing strategy with reality, aligning people with goals, and achieving the results promised.
5. A central part of a company’s strategy and its goals and the major job of any leaders in business.
6. A discipline requiring a comprehensive understanding of a business, its people, and its environment.
7. The way to link the three core processes of any business – the people process, the strategy, and the operating plan – together to get things done on time.

Sea Enterprise will never be considered more than a bright idea unless it is properly executed. Without execution, the breakthrough thinking breaks down; learning adds no value; people do not meet their stretch goals; and the revolution stops dead in its tracks. What you get is change for the worse, because failure drains the energy from your organization. Repeated failure destroys it (Bossidy and Charan).

There must be dedication to execution at all levels. The United States Navy will not be able to deliver on its commitments or adapt well to change unless a powerful

guiding coalition practices the discipline of execution. Just as the leader has to be personally involved in execution, so must everyone else in the organization understand and practice the discipline.

Earlier in this chapter, it was stated that “results will not be realized unless a culture is created to embrace the initiatives [of Sea Enterprise].” Even further, execution must become a part of a organization’s culture in order to realize results. Making changes in strategy or structure is not enough. However, when adopted within the culture of an organization, execution can help realize sustainable change. That is, quite simply, the United States Navy must create a culture of execution.

1. Creating a Framework for Cultural Change Through Execution

Bossidy and Charan have conducted dozens of studies on both the successes and failures of organizations and their CEOs. In such studies, it was determined that to change an organization’s culture, the organization requires a set of processes – social operating mechanisms- that will change the beliefs and the behavior of people in ways that are directly linked to bottom-line results (Bossidy and Charan). As such, the authors devised a reality-based framework for cultural change that creates and reinforces a discipline of execution. The approach is practical and completely linked to measurable results.

The basic premise of the approach is that cultural change gets real when your aim is execution (Bossidy and Charan). It is fairly simple in nature, and yet few organizations utilize the approach. Leadership must change the people’s behavior in order to produce results. Therefore, leadership must first clearly communicate what results are desired. Then, there must be a discussion that involves how to get the desired results; a key element to coaching. When results are realized, leadership must reward its people for producing desired results. If results are less than desirable, then leadership must provide additional coaching, withdraw rewards, or find someone else more capable of accomplishing the tasks. When these actions are taken, a culture of execution is created.

The key theme in the approach articulated above is *accountability*. Accountability starts with one or two people, usually the CEO and possibly one other person. Practicing the right behavior (the behavior that is expected of the organization's people) starts with the leader of the organization, the champion of change. Once behavior in the leader has changed, it is then logical to ask, "After the leader changes, what is to be done next?" The answer is, "Communicate it to six hundred fifty thousand people." That is, communicate it to the entire enterprise, the United States Navy.⁶ Then it might be asked, "How would that make anyone change?" It won't by itself, but holding oneself accountable at the very top is a good start. The leader must then communicate with a top level group of managers. Once this group of managers holds themselves accountable, the next phase is to hold their direct reports accountable, and so on. The manner in which each echelon is held accountable can be left at the discretion of the manager. Through strict enforcement of accountability, an organization should have follow-through, feedback, and rewards tied into individual performance and behavior at all levels.

A good, clear strategy is necessary for success, but not sufficient for survival (Charan, 1999). CEOs have been fascinated with the development and communication of the "right" strategy and a clear vision for the past decade or so. It has been considered the key to "blow away" competitors. In reality, that's less than half the battle (Charan, 1999). Execution has the power to change an organization's corporate DNA (corporate culture). However, different from that of human DNA, corporate DNA can evolve and change.

E. CUTBACK MANAGEMENT

The quest for efficiency is not new to the Department of Defense. Numerous initiatives throughout the years have been attempted to help identify inefficiencies, reduce costs, and cut the fat off the top line. Cutback management is yet another concept to help the government maximize its use of resources. Cutback management is the term which has been coined to apply to the management of tradeoffs, re-allocations,

⁶ The United States Navy has an approximate military and civilian end-strength of 642,766.

organizational contractions, program terminations, sacrifice, and reduction of benefits previously felt to be irrevocable (Cox, 1986). Sea Enterprise focuses on identifying and eliminating non-core functions that unnecessarily compete for resources. Similarly, cutback management is a means of managing organizational change toward levels of resource consumption (Cox, 1986).

Four aspects of resource scarcity must be considered when formulating strategies to implement cutback management:

- People are more willing to make organizational changes if those affected have something to gain. When resources are scarce, organizational change will become more difficult since there is little if anything available to reward those involved.
- There are many constraints in public organizations. Each constraint reduces the manager's options for managing the decline for the good of the organization.
- Organizational decline raises serious morale and job satisfaction problems which make it exceedingly difficult to increase productivity and
- It is less fun to work in an organization plagued with resource scarcity. Creativity and innovation inevitably decline (Levine, 1978).

Under cutback management, the government is faced with the necessity to terminate programs, reduce the level of activity in others, and make tradeoffs between new demands and old programs rather than, as in the past, simply expand to meet the new demand (Cox, 1986).

Sea Enterprise and cutback management face similar challenges. Cutback management involves making tradeoffs. Sea Enterprise initiatives are causing leaders to make constant tradeoffs between programs, policies, and resources. Cutback management requires changes in behavior and attitude toward doing the same, or more, with less. A culture must be created to understand and believe that cuts will help the department as a whole. Similarly, Sea Enterprise must foster a culture capable of identifying savings because of the benefits afforded the enterprise.

Today the government faces problems similar to those it has faced in the past. The concept of cutback management is no different. The government seeks to operate more efficiently, and there are risks, tradeoffs and heartache incurred throughout.

Convincing the organization to do more with less is an “intellectual chore” that requires persistence, follow-up, and follow-through.

F. CHAPTER SUMMARY

This chapter provided background information to lay the foundation for the issues raised throughout the remainder of this thesis. With respect to the broad issue of the ability of the Department of the Navy to identify and realize savings, it was shown to be a highly complex matter. As the issue was explored it was seen to be a highly interrelated mix of managerial issues such as organizational culture, leadership, execution and cutback management. Such a mix requires careful examination in order to resolve the relevance and interdependencies among many of the important issues required for deep and sustained change; thus creating the transformation necessary to realize savings throughout the Department of the Navy.

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III. DISCUSSION OF THE SEA ENTERPRISE EFFORT

A. INTRODUCTION

This chapter presents an overview of the Sea Enterprise effort from its inception to the present, June 2002 to May 2005. Further, this chapter provides an extension of the foundation provided in Chapter II for analysis of the overall effort provided in Chapter IV. For the reader, this general description of the goals and objectives, structures, responsibilities, and processes is necessary to appreciate the range of issues which can and do impact the effort as a whole. The information presented here has been drawn from a variety of interviews, from both public and private documents, and testimonies provided by top level Department of the Navy leadership.

B. PRELIMINARY DISCUSSION AND BACKGROUND

In order to meet the challenges the United States Navy will face throughout the twenty-first century and beyond, it is imperative that it transform its force structure, processes, and capabilities. Sea Power 21 has documented and verbalized the efforts of senior Navy leadership as to exactly how the Department of the Navy intends to transform. “Sea [Naval] Power 21 prescribes a strategy-to-concepts-to-capabilities continuum that will result in greatly enhanced power, protection, and operational freedom. It provides the framework for how we will organize, align, integrate, and transform our Navy to meet the challenges that lie ahead” (Clark, 2003).

The Sea Power 21 vision is based on three fundamental pillars. One, the Navy will assure access. That is, it will assure sea-based access worldwide for military operations, diplomatic interaction, and humanitarian relief efforts. Two, the Navy will project power to influence events at sea and ashore both at home and overseas; it projects both offensive power and defensive capability. It defines who we are. Finally, the DON is continually transforming to improve; transforming concepts, organizations, doctrine, technology, networks, sensors, platforms, weapon systems, training, education and its approach to people. The ability to transform continuously is at the heart of America’s competitive advantage and a foundation of our strength (England, 2002).

1. Cost Savings

Savings efforts, with respect to Sea Enterprise, were first introduced at the Naval War College in 2002. They were presented again in the CNO's Guidance for 2003. In the section titled "Guidance for Leaders", the CNO identified three savings goals for 2003:

1. Develop equipment and system replacement schedules to achieve manpower, operations, and support infrastructure. (N7)
2. Develop an integrated Navy Resource Planning campaign plan that maps legacy infrastructure and retires selected systems to capture savings. (N4)
3. Undertake "skunk works"⁷ initiatives in each Echelon II command to achieve efficiencies via organizational streamlining, technology, insertion, and divestment of non-core functions. (All Echelon II) (Clark, 2003).

These savings goals were anticipated to emerge from a Navy-wide effort to align and optimize the use of taxpayer dollars. Through these efforts, additional savings could be identified to ultimately harvest efficiencies throughout the organization to reinvest in war-fighting capabilities.

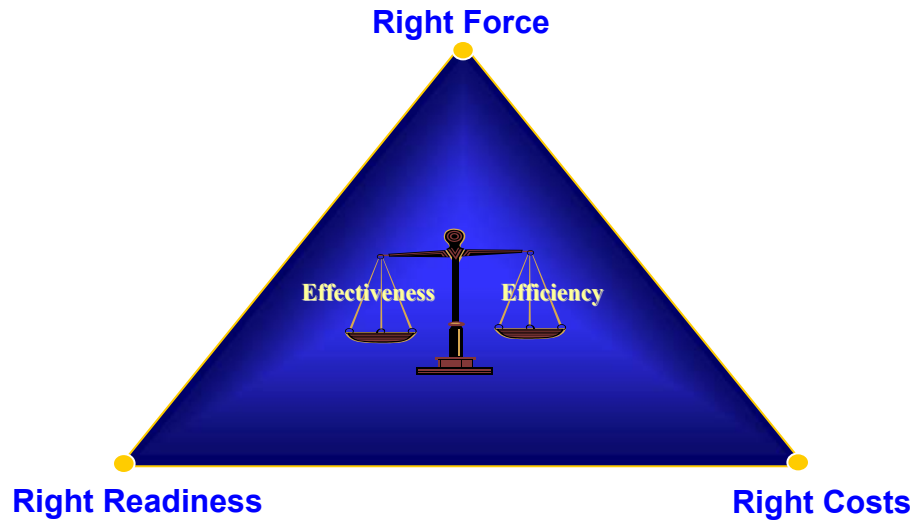
By identifying and eliminating non-core functions that unnecessarily compete for resources, it was deemed that the Navy could in turn increase its resources to grow and sustain the Navy's core combat capabilities. Identification and elimination of non-core functions was thought to be possible to achieve in a number of ways. One, improved business practices throughout the department could be implemented to achieve the Navy's combat capabilities in the most economical manner. Two, these implemented business practices could focus on continuous process improvement with metrics for measurement and evaluation. Finally, by dedicating the same level of scrutiny of current year fiscal operations as is applied to future-year planning, efficiencies could be realized in present years *and* out years. Early Sea Enterprise cost savings initiatives were intimately tied to the new vision of the Navy, Sea Power 21.

⁷ "Skunk works" is a reference to Lockheed Martin's famous Research and Development team. As such, the CNO has sought to develop pilot projects to demonstrate ideas or innovations that can be proven then applied.

The Sea Enterprise effort supports the three fundamental pillars of the Naval Power 21 vision in every aspect. The Department of the Navy endeavors to become more effective and efficient to preserve and realize the vision of Sea Power 21. As such, Sea Enterprise ventures are targeted to help the Navy assure access, enable Naval and Marine Corps forces to fight and win, and effectively accelerate the transformation process. The following subsections will identify the different ways it is hoped the Sea Enterprise program will help the entire Navy navigate throughout this journey of change.

C. WHAT IS SEA ENTERPRISE?

Sea Enterprise is an ongoing transformation effort that serves as a vehicle for resourcing tomorrow's fleet. That is, the Navy seeks to identify improved efficiencies so as to generate savings that can be used to help finance Navy transformation. An essential element of the Sea Enterprise effort is the pursuit of new and innovative approaches to the "business" of supporting our Naval forces. According to top level Navy leadership, it's about adopting a business dimension into our Service culture, where effectiveness and efficiency are among our primary responsibilities, and cost considerations are key to decision making. Succinctly, it's not only about getting the job done, but also getting it done at the right cost. That is, it's about achieving the proper balance between right force, right readiness, and right cost (Aviles and Nathman, 2004). Figure 3.1 below articulates this balance graphically.



Source: Derived from a PowerPoint brief given to the US Army, 26 February 2005: “Sea Enterprise: Right Force, Right Readiness, Right Cost”, delivered by Mr. Mark Honecker (N40)

Figure 3.1 Balancing the Forces of Sea Enterprise

As stated in the CNO’s Guidance for 2003, Sea Enterprise’s goal is to “improve organizational alignment, reduce overhead, streamline processes, and reinvest savings to recapitalize our Navy and deliver increased combat capability (Clark, 2003).” Further articulated in the CNO’s testimony to the Senate Armed Services Committee (SASC) in 2004, Sea Enterprise’s key objectives are to:

- Leverage technology to improve performance and minimize manpower costs.
- Promote competition and reward innovation and efficiency.
- Challenge institutional encumbrances that impede creativity and boldness in innovation.
- Aggressively divest non-core, under-performing, or unnecessary products, services and production capacity.
- Merge redundant efforts.
- Minimize acquisition and life-cycle costs.
- Maximize in-service capital equipment utilization.

- Challenge every assumption, cost and requirement.⁸

Ultimately, Sea Enterprise is posed as the engagement of the United States Navy to do more with less. Through identifying savings that can be utilized for recapitalization of the fleet, in theory, the Navy will be able to realize its vision (Sea Power 21) for the twenty-first century. Is this what was intended for Sea Enterprise? More specifically, what were the intentions and motives of top-level leadership as the Sea Enterprise concept was being developed?

1. The “Birth” of Sea Enterprise

The concept of Sea Enterprise was elucidated by the Chief of Naval Operations, Admiral Vern Clark. However, the idea emerged from thoughtful discussions and meetings between Admiral Clark and Mr. Gordon England, the Secretary of the Navy.⁹ Prior to joining the Administration of George W. Bush, Mr. England served as executive vice president of General Dynamics from 1997 to 2001. During his tenure with General Dynamics, Mr. England was successful in reducing operating costs and maximizing return on investment (ROI). He maximized his department’s profit margin by streamlining processes and thus increasing overall efficiency. As such, Mr. England and Admiral Clark sought to engage and educate the entire Navy in similar business concepts.

With concerns similar to those of a corporate America Chief Operating Officer (COO), the CNO understood the importance that our leaders have knowledge of sound business practices in order to provide the greatest return on the taxpayers’ investment. Ultimately, the CNO endeavored to take anticipated savings and reinvest them (plow back)¹⁰ for recapitalization. It was thought of as a double-win; (1) the Navy would become more effective through investments provided as a result of increased efficiency

⁸ Recorded during the CNO’s testimony to the Senate Armed Services Committee (SASC), 10 February, 2004.

⁹ As per interview with Mr. Pat Tamburrino (N8B), 25 March 2005.

¹⁰ Plow back is a finance term that refers to retaining assets generated by earnings for continued investment in the business; abstracted from Stickney and Weil, 2003.

and, (2) the Navy would not be required to ask Congress for more money. Thus, the Navy set out to self-finance its capital improvement. Hence, Sea Enterprise was born. The idea became the process.

It was next imperative that the CNO create a powerful guiding coalition committed to the Sea Enterprise transformation. He has delivered the Sea Enterprise “pitch” in testimonies, the CNO’s annual Guidance, and through the Sea Enterprise Board of Directors (SE BOD). The SE BOD was a group of senior level Navy leadership that served as the original guiding coalition to the Sea Enterprise effort. The SE BOD and other entities were held responsible for the development and execution of Sea Enterprise initiatives as discussed in the following subsections.

2. Sea Enterprise Board of Directors

In March 2003, the Navy stood up the Sea Enterprise Board of Directors (SE BOD), co-chaired by the Vice Chief of Naval Operations (VCNO) and ASN (RDA (Research Development and Acquisition)) and comprised of key elements of the headquarters staff, major systems commands, and the Fleet. The Sea Enterprise Board of Directors was focused on the execution of existing initiatives programmed in the Navy's budget as well as identification of new savings opportunities to generate additional resources that could be applied towards recapitalization (England, 2003).

The senior level management of SE BOD consisted of the CNO’s Staff and more specifically, his seven “direct reports.” The CNO’s “direct reports” consists of the Director, Navy Staff (DNS), Deputy Chief of Naval Operations (DCNO) Manpower and Personnel (N1), the Director of Naval Intelligence (N2), the DCNO Plans, Policy, and Operations (N3/N5), the DCNO Fleet Readiness and Logistics (N4), the DCNO Warfare Requirements and Programs (N6/N7), and DCNO of Resources, Requirements, and Assessments (N8). The CNO’s staff and associated SE BOD members are shown graphically in Figure 3.2 below; the organizational chart is provided to show the top-level SE BOD personnel in relation to the CNO.

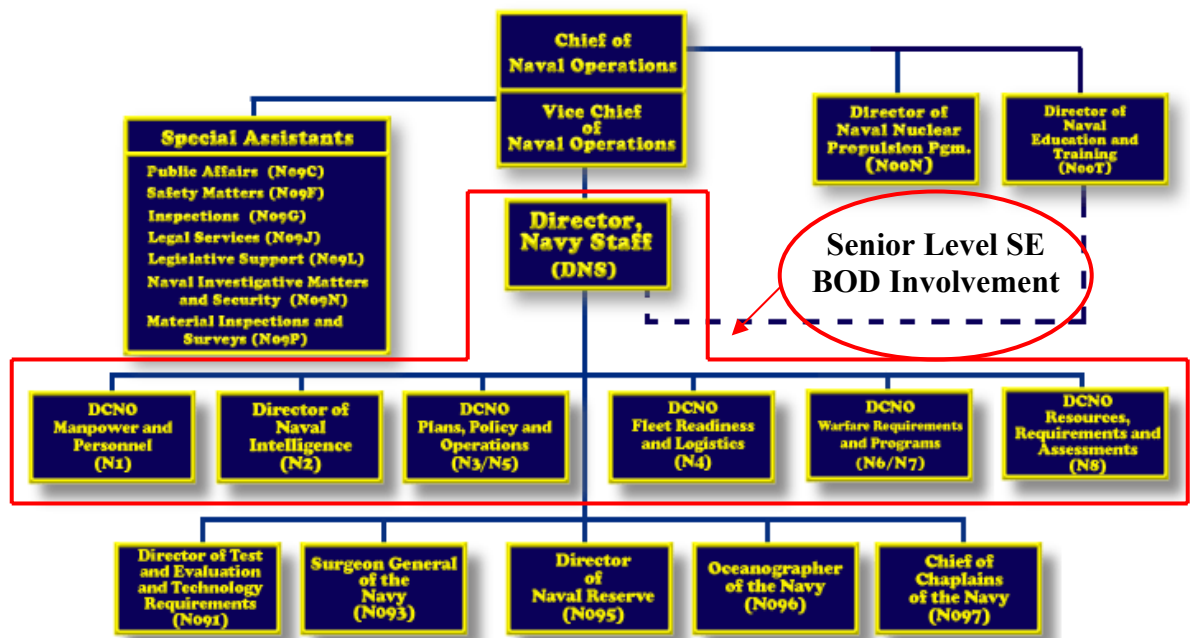


Figure 3.2 CNO's Staff: Senior Level SE BOD Involvement

Initially, the SE BOD consisted of the following representatives: Vice Chief of Naval Operations (VCNO) (Co-chair) Admiral Michael Mullen, Assistant Secretary of the Navy (ASN) (RDA) (Co-chair) the Honorable John Young, Director of Navy Staff Vice Admiral (VADM) Patricia Tracey, VADM Gerry Hoewing (N1), VADM Charles Moore (N4), VADM John Nathman (N6/N7), VADM Cutler Dawson (N8), VADM Walter Massenburg (COMNAVAIR), VADM Phil Balisle (COMNAVSEA), VADM Albert Konetzni (Commander, Fleet Forces Command – CFFC), RADM Chris Weaver (Commander, Navy Installations Command – CNI). In total, the primary board consisted of eleven people representing a broad spectrum of naval capability.

The SE BOD met approximately every two weeks. A core of about ten board members was an ideal number for discussing innovative approaches to change and providing feedback for new processes being implemented within the different commands. However, the number of people that attended the meetings began to increase. As the number of attendees increased (from ten to thirty on some occasions), the productivity of the meetings decreased.

Although the SE BOD represented a valiant initial effort to create a guiding coalition; there were some adjustments that required mending. One of SE BOD's most prominent initiatives implemented was Target Setting.

a. Target Setting

In 2003, ADM Michael Mullen, then Vice Chief of Naval Operations and Mr. John Young, Assistant Secretary of the Navy (RDA) authored a memorandum titled "POM 06 Target Setting". The memorandum delineated a minimum 5% reduction in the cost of doing business, consistent with the CNO's Guidance for 2004. This 5% reduction became known as the "target."

The 5% target was a department-wide "bogey," as some Commanders were clearly in the position to save more than 5% and some had already conducted several cost reduction efforts. For example, the Bureau of Medicine and Surgery (BUMED) was able to identify an approximate \$11 million target (out of \$146 million appropriated) or 7.5% savings in FY 2006 dollars (Mullen and Young, 2003). According to the memorandum, the target approach "enable[d] development of an effective strategy to deal with the realities of external pressures in the Planning, Programming, Budgeting, and Execution System (PPBES) process, properly price the full range of our efforts and, most importantly, provide a means for supporting critical Future Readiness and transformation initiatives in POM06 (Mullen and Young, 2003)."

The Target Setting approach no longer employed a "wedge" cut methodology. Rather, this approach consisted of two major focus shifts. First, Commanders were afforded full latitude in determining the method(s) by which to achieve cost reduction targets. "Critical to this latitude is the ability to present a credible process by which the cost reductions can be achieved and be able to articulate the cost reductions in terms of specific budget accounts (Mullen and Young, 2003)." Secondly, the focus was on maintaining output, but accomplishing it at reduced cost. This shift was expected to drive Commanders to both an examination of low value added efforts for elimination as well as driving down the expense side of their businesses (Mullen and Young, 2003).

Target Setting focused on accounts on the Operations side of the Department. As such, the accounts were associated with fleet and shore readiness, training, personnel, and support (including life cycle support of platforms and systems). The vast majority of savings in this part of the budget were expected to come from improvements in productivity and business efficiencies such as substituting technology for labor, overhead reduction, consolidation of like efforts, elimination of excesses, etc (Mullen and Young, 2003). Although targets were issued to Echelon II Commanders, all levels of the organization were expected to collaborate on achievement of savings.

Business “rules”, under which the Target process was governed during POM 06, were provided. The overarching objectives of the Target process were:

- Create a culture that fosters a continuous review of program and process costs.
- Allow Commanders full latitude to assign cost reduction targets to the sectors of their business they feel most appropriate in response to Department Fiscal Guidance.
- Return funds to the Department of the Navy that can be reinvested in the CNO’s Transformational Agenda (including modernization and recapitalization programs).
- Return funds to the Department of the Navy that can be used to satisfy externally imposed “end game” requirements vice requiring a large set of program offsets.
- Return funds to the Department of the Navy to support initiatives that relate to proper pricing of major programs.
- Create an investment tool to support start-up of new initiatives that show significant Return on Investment projections (Mullen and Young, 2003).

The “rules” specified above are more closely related to goals or initiatives. A rule includes the “what” *and* the “how.” A “goal” can be defined as the “state of affairs that a plan is intended to achieve, and that (when achieved) terminates behavior intended to achieve it.” Therefore, a goal is definite and behavior is not sustained. A “rule” however, can be defined as “a principle or condition that customarily governs behavior.” That is, a “rule” defines “what” one will do and “how” one will behave unconditionally, and until otherwise directed. In the Target Setting “rules” above, there

is some indication of the “what”, but they neither define the “how”, nor model sustained behavior, and thus cannot be considered rules. This is an important distinction to make between rules and goals.¹¹

Accounting principles associated with the Target process were a major concern and critical aspect of the effort. The Deputy Chief of Naval Operations (Resources, Requirements, and Assessments) (N8) was charged with putting in place the processes, practices and tools that would allow for robust and accurate accounting of all cost reduction targets and associated initiatives. It was further mandated that targets could not simply be “cost avoidance.” Rather, the intended focus was on improving productivity by first defining the “right” level of output and then driving efficiencies throughout the Department’s organizations to achieve that level of output at the lowest possible cost.

The resource sponsors played a major role in the effort. Resource sponsors were mandated to support Echelon II Commanders and aid them in creating innovative ways to generate financial savings (Mullen and Young, 2003). However, resource sponsors and Echelon II commands were *not* to reprioritize or apply savings. Rather, this was deemed a collective leadership function of the SE BOD with final approval resting at the CNO and Staff N8/SECNAV level. This methodology was a significant change from past practices where internal program generated savings would first be resolved and reapplied by the resource sponsors. Savings generated were to be allocated based on CNO prioritized needs and potential return to the enterprise. Savings were not recognized and allocated until specific initiatives were identified and documented, the associated savings were validated, and the savings were “tagged” to a discrete budget line item or program element which contained the funds no longer required.

Although some of these processes put in place might appear to be useful to identify and realize savings, the Target Setting process was not as effective as top level leadership had hoped it would be. That is, to many, the process was seen as nothing other than another budget drill. The 3-star BOD’s mandate was to champion the vision and

¹¹ Rules and goals as defined in this excerpt were abstracted from <http://www.google.com>; “define: rule” and “define: goal” for rules and goals respectively.

imperatives (i.e., change culture, processes and structure, and harvest savings) (Moore, 2003). Was a culture with the ability and willingness to save created? According to top level Navy officials, such a culture was considered, but not realized in the effort to initiate the identification and realization of savings.

3. Corporate Business Council (CBC)

On 22 October 2004, and in accordance with the “Promulgation of the Corporate Business Council (CBC) Charter for Sea Enterprise Governance,” the SE BOD was dissolved and the CBC was established (Nathman and Aviles, 2004). CBC is established to facilitate business transformation and to foster a culture of productivity and continuous improvement. The purpose of the DON CBC is to provide corporate leadership and governance over enterprise business process improvement efforts. The CBC meets at least every two weeks to consider enterprise-wide cross functional initiatives; track progress/assess results of CBC proposed initiatives; review Sea Enterprise execution status; and address significant Sea Enterprise issues. It is a forum empowered to act to further Sea Enterprise objectives (Nathman and Aviles, 2004). The duties and responsibilities of CBC are as follows:

- Foster Sea Enterprise goals through routine engagement with Echelon II commands to foster a culture of productivity and continuous improvement.
- Develop, articulate, advocate and ensure the execution of high potential, cross-functional enterprise initiatives. Assign champions as necessary to implement initiatives.
- Ensure savings are harvested and returned to the corporation for reallocation against other Navy priorities. Redistribution of harvest savings is not under the purview of the CBC.
- Track and integrate Echelon II business initiatives.
- Manage across functional and organizational seams to ensure opportunities for enhanced performance and organizational efficiencies are not lost in the “white space.”
- Sponsor investments in cross-enterprise efficiency initiatives.
- Facilitate barrier removal and organizational impediments to change.
- Address policy changes necessitated by the transformation effort.

- Ensure Sea Enterprise and CNO Echelon II Review lessons-learned are leveraged across the enterprise, where appropriate.
- Provide progress reports to VCNO/Under Secretary of the Navy (UNSECNAV) on a quarterly basis.
- Ensure senior leadership awareness of significant issues impacting the efficient and effective delivery of products and services to the warfighter.
- Leverage the 3-star BOD when needed to remove barriers; and support transformational, enterprise level, business process initiatives (Nathman and Aviles, 2004).

The CBC is accountable to the VCNO and the UNSECNAV. The Deputy Chief of Naval Operations (Fleet Readiness and Logistics) (N4) is the CBC sponsor, and serves as the interface to the 3-star Board of Directors relative to CBC matters.

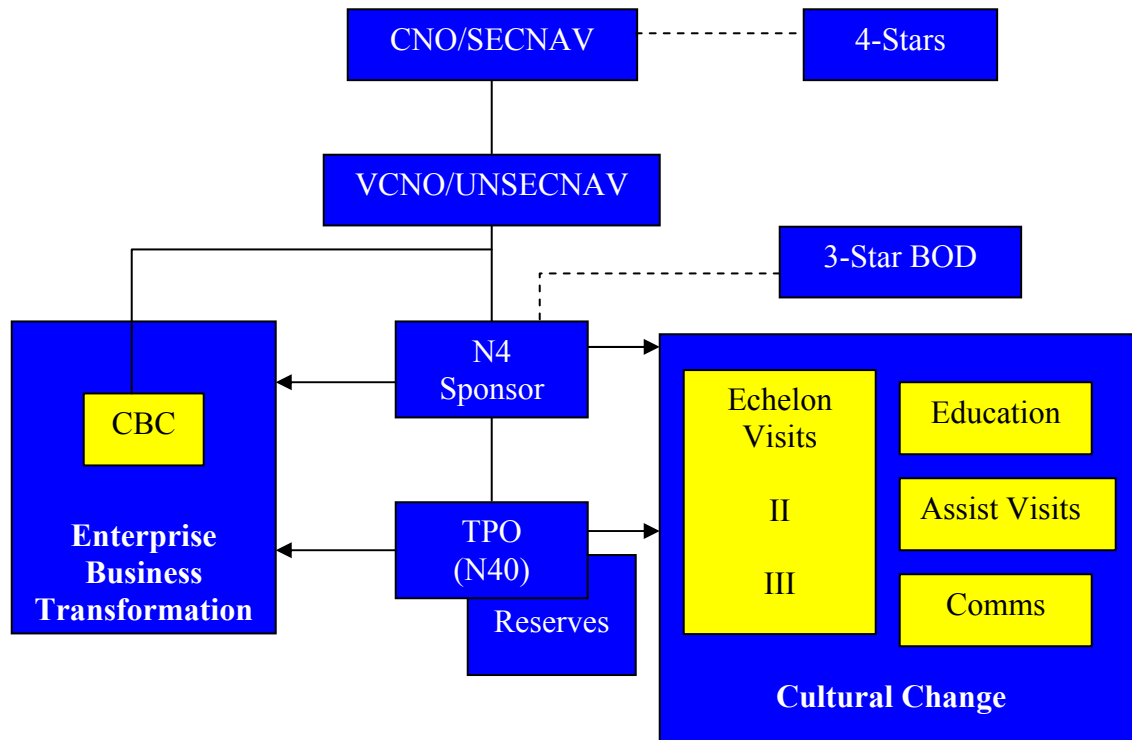
The CBC is co-chaired by the Assistant Deputy Chief of Naval Operations (Fleet Readiness and Logistics) (N4B) and the Assistant Deputy Chief of Naval Operations (Requirement, Resources, and Assessments) (N8B). Other members are selected by the Commanders of each domain (i.e., Type Commander) to be their representative on the council. CBC principal membership is represented by the following commands and/or billets: DCNO (N1B); DCNO (N6/7B); Deputy Director, Navy Staff (DDNS); CFFC designated senior leader; Aviation, Surface and Submarine Domain senior leaders; Commander, Navy Installations (CNI); Navy Chief Information Officer; SYSCOM senior leader (Senior SYSCOM rep); UNSECNAV designated senior leader; FMB designated senior leader; and Headquarters Marine Corps designated senior leader.

OPNAV N40 plays a major role in the CBC. N40 serves as the Executive Secretary, and is responsible for all administrative support of CBC. Such administrative responsibilities include publishing the meeting agendas and procedures, disseminating schedule information and maintaining and publishing records of meetings. Issues and agenda topics of interest of the co-chairs and principal board members are submitted to N40 for consideration. Additionally, N40 keeps the CBC informed of the status of CNO Echelon II Execution Review¹² (schedule and outcomes) (Nathman and Aviles, 2004). Action items are then passed to the appropriate DON organizations for coordination and response.

¹² CNO Echelon II Execution Reviews are discussed later in this chapter.

As the CNO's financial officer, OPNAV N8 has been charged with executing the fiduciary responsibilities associated with CBC operations. As such, N8 responsibilities are to review CBC initiatives, and advise co-chairs of their compatibility with all DOD and DON financial management policies; provide business case analysis validation for the CBC; document the details of savings initiatives in the context of the PPBES process; track initiative execution through the Future Year's Defense Plan (FYDP) and ensure the savings entries are posted to the Program Budget Information System (PBIS) database, where appropriate (Nathman and Aviles, 2004).

The discussion of the different players involved with the Sea Enterprise effort gives rise to the formation of a strategic framework. This framework combines enterprise focus with cultural change as depicted in Figure 3.3.



Source: Derived from a PowerPoint brief given to the US Army, 26 February 2005: “Sea Enterprise: Right Force, Right Readiness, Right Cost”, delivered by Mr. Mark Honecker (N40)¹³.

Figure 3.3 Sea Enterprise Framework

4. Echelon II Commanders

Echelon II Commanders have been charged to return funds (savings) to the Department of the Navy to be reinvested in the CNO’s transformational agenda. In the initial outset of Sea Enterprise savings initiatives, to reflect the savings in the Navy budget and/or program, spending levels of individual budget line items were reduced accordingly. Therefore, the money was taken away, as if it had been saved.

Savings are initiated by Echelon II Commanders. Savings are identified in several ways; the following are provided to name a few. One, savings can be identified within a program where innovation of the workforce results in efficiencies to meet mission requirements at a lesser cost. Two, savings can be identified in legacy systems, programs, and activities to accelerate transformational programs. An example of a

¹³ In Figure 4, TPO is an acronym for Transformation Program Office. A TPO brokers ideas fostered by the workforce, and helps to develop a business case with each idea owner.

transformational program is SC-21 Total Engineering which is a Program Element that provides funds for the development of the DD(X). Also, savings can be identified by simply making a cut to a program.

The CNO has dedicated time to conduct formal visits to Echelon II Commanders called CNO Execution Reviews. The visits provide the CNO the opportunity to engage with top level leadership. Overall, the visits focus on effectiveness and efficiency and are conversational in nature. The CNO considers this top level communication an essential step to achieving Sea Enterprise objectives (Honecker, 2004). Specifically, the CNO discusses that Sea Enterprise is essential to Sea Power 21 and a leader's job is to accomplish mission and control costs. A critical topic of discussion is the CNO's interest in enhancing productivity. Productivity, as the CNO defines it, equals output divided by cost (Honecker, 2004). Further, enhancing productivity involves understanding and controlling costs and defining and measuring output. Understanding risks and balancing priorities, and maximizing ROI are also discussed. Finally, the CNO stresses that the Navy can no longer afford costs growing at the rate of inflation and readiness at any cost.

The CNO Execution Reviews include two rounds of review. The first round consists of fourteen areas with information covering the following topics:

1. Core missions and functions.
2. Key activities and services.
3. Key constraints.
4. Internal/subordinate organizational command layers.
5. Define internal/external associated billet base (active, reserve, civilian, and contractor).
6. Budget trend: 5-year history and distribution (by account – current year dollars).
7. ROI trend: 5-year history of associated output metric (by account – current year dollars).
8. Current year budget plan and execution rate.

9. Current year ROI by associated output metric.
10. Budget: FYDP forecast and apportion plan.
11. Manning: 5-year history and distribution.
12. Manning: FYDP forecast and apportion plan.
13. Future “Mission Plan” and associated risks.
14. Recommended skunk works Proposals.

The first round visit establishes a baseline for each command. Consequently, upon completion of the visit, an action item list is generated and tracked by the Echelon II Commander. An important point to note is that each Echelon II Commander tracks, manages, and reports his/her own action item list, without the scrutiny of an independent audit.

The purpose of the second round visits is to evaluate the progress the command is making on first round action items. Additionally, round two consists of an analysis of the progression of the command in creating the environment and/or incorporating processes that encourage innovation. More pointed questions are, (1) what is the process and/or structure that has been created and (2) what are the results?

The status of developing a Human Resources Strategy for the future is also evaluated. Specifically, the command reports its understanding of the current status of Human Resources, determining the right mix of people (among military, civilian, and contractor), what is being accomplished to shape the workforce for the future, how the new tools are being leveraged, and what additional tools are required.

In the CNO’s Guidance for 2004, Admiral Clark states “[w]e will seek innovative means to improve productivity.” As such, the understanding of productivity is of great importance to the CNO and is also evaluated during round two reviews. Furthermore, a thorough understanding of output and costs fosters a greater understanding of productivity. Specifically, $\text{productivity} = \text{output}/\text{cost}$. Specific questions asked regarding productivity include, how do you know the right level of output is being provided?; what output trade-offs are considered?; what are the risks?; are all costs being captured?; what is driving costs?; and what is being done to reduce costs?

Ideally, the initiatives pursued by Echelon II Commanders lead to identified savings. Once the savings are identified by Echelon II Commanders, the resource sponsors review the savings initiatives. The resource sponsors for each community are outlined below in Table 3.1.

CODE	RESOURCE SPONSOR
N09B	Director, Navy Staff
N1	Director, Manpower and Personnel
N2	Director, Naval Intelligence
N4	Director, Fleet Readiness and Logistics
N6	Director, Space, Information Warfare, Command and Control
N7	Programs
N00N	Director, Naval Nuclear Propulsion Program
N091	Director, Navy T&E and Technology Requirements
N093	Surgeon General of the Navy
N095	Director, Naval Reserve
N096	Oceanographer of the Navy
N097	Director of Religious Ministries/Chief of Chaplains of the Navy
N83	Director, CINC Liaison
N71	Director, Naval Missile Defense
N74	Director, Naval Anti-Submarine Warfare
N75	Director, Naval Expeditionary Warfare
N76	Director, Surface Warfare
N77	Director, Submarine Warfare
N78	Director, Air Warfare
N79	Director, Training
N89	Director, Special Programs
HQMC	Headquarters Marine Corps

Source: CDR Phil Candreva (Graduate School of Business & Public Policy); Practical Financial Management: A Handbook of Practical Financial Management Topics for the DOD Financial Manager, Version 5, Revision 2.

Table 3.1 Resource Sponsors of the United States Navy

Resource sponsors defend and act on the best interests of the community they support. That is, resource sponsors have uses for the money they save and obligate and spend that money internally. As explained earlier (see pg 51), this concept conflicts with their mandate to return savings to the CBC with final application approval resting at the CNO and Staff N8/CBC level. Appropriate questions to ask in this case are: does this conflict of interest result in lost savings or savings reapplied at the wrong level?; has a culture been created enterprise-wide that is incentivized and capable of identifying and realizing savings?; and where are the data to support either argument?

D. CHAPTER SUMMARY

This chapter presented a brief overview of the Sea Enterprise effort from its inception to the present. The Sea Enterprise effort endeavors to foster innovation at the lowest level, increase productivity (that is, properly assign costs and measure output), maximize efficiency while maintaining effectiveness, and thus identify and realize savings in support of Sea Power 21. A unique and dynamic set of goals and objectives, structures, responsibilities, and processes present a range of issues that can and do impact the effort as a whole.

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IV. SEA ENTERPRISE: ANALYSIS OF EFFORT

A. INTRODUCTION

This chapter analyzes data from various sources to determine if savings were actually realized with the Sea Enterprise Program. Where forecasted savings were not realized, some identifiable problems and issues are provided for consideration. Overall, this chapter will answer the primary and secondary research questions specified in Chapter I of this thesis.

Information was collected from a variety of sources to capture savings data for analysis. Interviews were conducted with personnel from a variety of commands with intimate ties to the Sea Enterprise effort. The interviews sought information about processes, initiatives, tracking methods, organizational culture, leadership, barriers to efficiency, and most importantly, verified savings. Most of the interviews conducted were informal, discussing areas familiar to the interviewee. Respondents consisted of current civilian Senior Executive Service (SES) members of the Corporate Business Council and from OPNAV, a former Assistant Secretary of the Air Force (Financial Management and Comptroller), current SYSCOM (Echelon II) Sea Enterprise agents, current staff members to the CBC Executive Secretary (N40), and other personnel supporting Sea Enterprise in various capacities.

B. THE “PROCESS” OF HARVESTING SAVINGS

As stated previously in this thesis, perhaps the single most telling measure of success of Sea Enterprise is *harvested* savings. For purposes of this thesis, savings are considered *harvested* savings when (and only when) unexecuted funds are returned to the CBC/N8 for recapitalization (with final discretion of the CNO), as it was intended when Sea Enterprise was initiated. However, many steps must be taken prior to realizing *harvested* savings. They are: the determination of initiatives to be pursued, implementation of initiatives, identification of possible savings due to efficiencies (and other reasons), tracking savings, and finally harvesting savings. This course of action requires communication, clarity of purpose, and consensus; and perhaps most

importantly, accountability and execution. It also requires persistence and continuity; any hindrance to this process may jeopardize the ultimate harvest. This section will reveal some fundamental issues identified with this process.

1. Savings Initiatives

First, numerous savings initiatives were identified by Echelon II Commanders to aid in realizing forecasted savings. The major initiatives considered are listed below in Table 4.1.

PB03-PB05 Major Initiatives	POM06 Major Initiatives
<p><u>Divestitures/Retirements</u></p> <ul style="list-style-type: none"> • Inactive Inventory Recovery • Land Sales Revenue • Ship/Aircraft Retirements • Weapon System Retirements <p><u>Improved Acquisition</u></p> <ul style="list-style-type: none"> • Acquisition Re-phase • LPD/DDG Workload Swap • Multi-year Procurements • T-5 Tanker (Ship) Lease Buyout <p><u>Improved Infrastructure</u></p> <ul style="list-style-type: none"> • Base Management Regionalization • Headquarters Activities Reductions <p><u>Improved Operations</u></p> <ul style="list-style-type: none"> • Mission Fund Shipyards • Revolution in Training • Workload Validation <p><u>Improved Processes</u></p> <ul style="list-style-type: none"> • Acquisition Organization Efficiencies • ERP • IT Legacy Applications Reduction 	<p><u>Demand Changes</u></p> <ul style="list-style-type: none"> • Product – force structure, inventory • Activity/Service Level <p><u>Divestitures/Retirements</u></p> <ul style="list-style-type: none"> • Inactive Inventory Recovery • Land Sales Revenue • Ship/Aircraft Retirements • Weapon System Retirements <p><u>Efficiencies</u></p> <ul style="list-style-type: none"> • Organizational <ul style="list-style-type: none"> • Active Military Personnel • Civilian Substitution • SELRES • Civilian Personnel/All Other Costs • Operational/Process <ul style="list-style-type: none"> • Application of IT products and services • Smart Buyer <ul style="list-style-type: none"> • Financing/Contracting

Source: PowerPoint Brief to Sea Enterprise Board of Directors; delivered by Mr. Pat Tamburrino (N8B). *State of Sea Enterprise Savings Harvest: PB 03, PB 04, and PB 05 Initiatives*, 9 July 2004.

Table 4.1 PB03-PB05 and POM06 Savings Initiatives

To evaluate initiatives and track progress, it is critical that all constituents monitor and track the same initiatives and utilize the same definitions of concepts expressing the themes with the overall Sea Enterprise effort; namely, savings harvested, programs, projects, accountability measures, and performance metrics, among others. With respect to Sea Enterprise, this requirement has not been realized. Numerous initiatives have been created and implemented, but not all have been tied to Sea Enterprise. According to SE

BOD/CBC, Echelon II Commanders, and others directly tied to Sea Enterprise; the initiatives specified in Table 4.1 were considered “Sea Enterprise” initiatives. However, it appears that the Office of Budget (FMB) office records differ. For example, in FMB’s Program Budget Information System (PBIS) database, they recognize only five improvement processes (initiatives) from Sea Enterprise, while other official entities within the DON recognize many more. For instance, see Table 4.1. Figure 4.1 depicts the disparity between initiatives tracked under the umbrella of Sea Enterprise and “Other Initiatives.”

	Program (\$M)	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FYDP
	Improved Processes	885	2,103	2,576	3,445	3,671	3,877	4,034	4,355	24,945
FY05 OSD	<i>Sea Enterprise Initiatives</i>	0	0	74	150	143	151	182	198	898
FY05 OSD	LOE I	0	0	0	-176	-145	-145	-143	-147	-756
FY05 OSD	LOE II	0	0	74	325	288	296	324	345	1,652
FY05 OSD	Correct LOE Technical Adjustment	0	0	0	0	0	0	0	0	2
FY05 OSD	LOE Technical Correction	0	0	0	0	0	0	0	0	0
FY05 OSD	NAVSUP Transformation				28	29	29	30	30	145
	Other Initiatives	885	2,103	2,502	3,295	3,528	3,727	3,853	4,157	24,048
FY 03 PB	NMCI	41	140	192	219	225	226	233	230	1,506
FY 03 PB	Legacy Applications	0	125	150	175	200	200	206	203	1,259
FY 03 PB	Enterprise Resource Planning (ERP)	10	52	251	625	907	983	1,079	1,268	5,175
FY 03 PB	Strategic Sourcing	753	1,095	1,397	1,597	1,665	1,709	1,709	1,836	11,761
FY 03 PB	Acquisition Organizations Efficiencies	0	292	304	312	261	343	353	350	2,215
FY 04 OSD	Skunkworks: Reverse Auctions	0	0	7	16	28	30	30	30	141
FY 04 OSD	Ongoing NAVSUP Reverse Auctions	0	9	9	9	9	9	9	9	60
FY 03 PB	Ownership Cost Reductions	81	136	192	228	233	227	234	231	1,562
FY 03 PB	Inactive Inventory Recovery	0	50	0	0	0	0	0	0	50
FY 04 OSD	Land Sales Revenue	0	204	0	115	0	0	0	0	319
	Program (\$M)	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FYDP
	Improved Operations	0	19	637	727	893	809	853	959	4,896
FY 04 PB	Mission Fund Puget Shipyard	0	0	18	18	18	18	18	18	108
FY 04 OSD	Workload Validation	0	0	670	681	695	709	723	738	4,216
FY 04 OSD	Revolution in Training	0	0	-4	8	31	45	66	80	226
FY 04 OSD	Performance Based Logistics (PBL)	0	19	19	20	20	21	22	22	142
FY 04 OSD	LPD/DDG Workload Swap	0	0	-66	0	129	16	24	101	204
	Program (\$M)	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FYDP
	Improved Infrastructure	0	0	162	219	181	189	141	274	1,166
	<i>Base Mgmt Regionalization</i>	0	0	117	141	101	107	57	193	716
FY 04 OSD	Skunkworks: Regionalization	0	0	112	111	114	117	122	127	703
FY 04 OSD	Skunkworks: Enlisted Permanent Party BQs	0	0	0	24	-19	-17	-72	59	-25
FY 04 OSD	Skunkworks: Realign PSAs	0	0	3	3	3	4	4	4	21
FY 04 OSD	Skunkworks: Consolidate NRRCs into NRC	0	0	0	1	1	1	1	1	5
FY 04 OSD	Skunkworks: Transfer Family Housing	0	0	2	2	2	2	2	2	12
FY 03 PB	Headquarters Activities Reductions	0	0	45	78	80	82	84	81	450

Source: Excel Spreadsheet: “Master Savings as of 05 PB”, FMB.

Figure 4.1 Sea Enterprise Initiatives and “Other Initiatives” tracked by FMB

According to FMB, Sea Enterprise initiatives include Level of Effort¹⁴ (LOE) I, LOE II, Correct LOE Adjustment, LOE Technical Correction, and NAVSUP Transformation. In this case, it is not as important to know what the initiatives entail, as it is critical to realize that clarity, communication, and consensus have not been achieved regarding what Sea Enterprise initiatives are. If constituents are not tracking the same initiatives, how can success of the effort be fairly and accurately measured?

2. “Accounting” for Savings

In May 2004, the Government Accountability Office (GAO) made the following report:

As we have reported for years, DOD does not have the ability to produce accurate, reliable, and timely information to make sound decisions and to accurately report on its billions of dollars of inventory and other assets. In addition, the department’s stove-piped, duplicative systems contribute to its vulnerability to fraud, waste, and abuse.

(GAO, 2004)

Within the DON, the same financial system difficulties persist. In FY2004, DOD reported it had 2,274 business systems¹⁵ for which the DON requested \$3.8 billion (20.2% of DOD’s request) for maintenance of and investment in such systems in FY04. Even with implementation of a new budget database, the Program Budget Information System (PBIS), the DON continues to confront pervasive financial and business management problems related to its systems, processes (including internal controls), and people (human capital) (GAO, 2004).

Prior to FY03, the Navy Headquarters Budget System (NHBS) served as the host system for the Navy’s actual budget tracking system, the Navy Budget Tracking System (NBTS). NBTS was an issue-based database which stored all adjustments to the budget down to the detail level. The ability to track such adjustments or changes allowed for the ability to monitor decreases to programs and thus savings. In 2003, the Program Objectives Memorandum database, WINPAT (Windows Program Analysts Toolkit),

¹⁴ LOE programs are those that are not driven by specific force structure or readiness decisions, those that cannot be optimized by cost benefit analysis, and are often based primarily on historical execution levels. LOE programs comprise about 10% of DON TOA.

¹⁵ Business systems referred to here include those that are used to support finance only.

merged with NBTS into the new budget database, PBIS, to consolidate programming and budgeting into a single database.

Although the PBIS database has provided the DON greater visibility of program elements (PE) and budget activities (BA) and adjustments to such activities, the database still falls short of “accounting” for savings. This is true for three reasons: (1) PBIS lacks the capability to transition accounts smoothly from one budget cycle to the next; which leads to (2) human error; and finally (3) in the end game,¹⁶ adjustments are made to accounts for numerous reasons that have previously been flagged as savings.

Issues and titles associated with particular budget activities change each budget cycle (Tomba, 2005). PBIS does not readily account for these changes. Issues and titles must be entered manually during each budget cycle. In some cases, analysts may not code or enter the data correctly into PBIS; and in other cases when issues and titles change, analysts may not update the database to account for the change. Therefore, an element of human error exists. If savings are identified in a particular activity and its associated issue and title are entered incorrectly into PBIS, savings that had been previously identified are lost.¹⁷

Adjustments are made to accounts in the end game for numerous reasons. It is important to understand that PBIS allows for easy “tracking” (not accountability) and reapplication of money. Typically, certain dollar amounts within particular accounts are earmarked as savings until the end game. As such, those with the proper authority (i.e., Echelon II Commanders, N82/FMB) can ‘sweep up’ and reapply identified savings to “higher priority” accounts. Therefore, identified savings can be lost to the Sea Enterprise effort.

3. Reported Savings: Fiscal Year 2003-2009

It seems logical that reported savings would be a telling measure of the success (or failure) of the Sea Enterprise effort thus far. However, this measure proves valid only

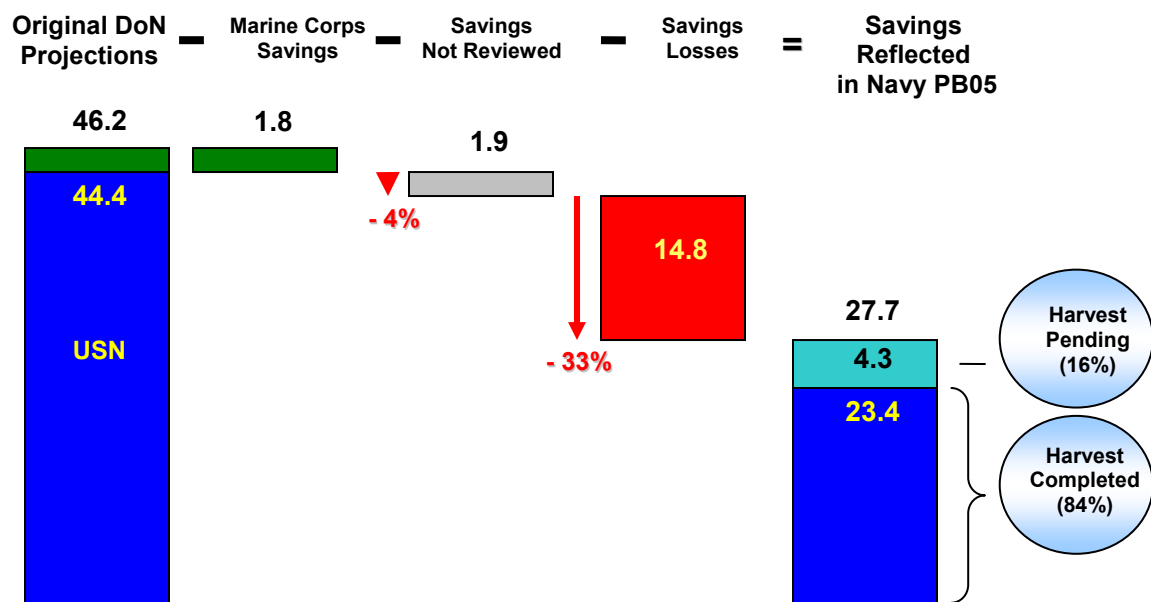
¹⁶ The end game refers to the third stage of the PPBE cycle (the budget phase) in which adjustments are made to programs and accounts to provide the right “balance.” The right “balance” is defined and communicated by the Office of the Secretary of Defense.

¹⁷ Issue and title input provided by Ms. Mary K. Tomba, FMB.

if the savings are real, measurable, and verified. As a result of this research, three different sets of savings figures were discovered, which cannot be reconciled. The following paragraphs outline the three sets of savings tracked by different agents within the DON and the confusion that lingers therein.

a. SE BOD Estimated Savings (July 2004)

As discussed in Chapter III, the Navy stood up the Sea Enterprise Board of Directors (SE BOD) in 2003. The SE BOD was focused on execution of existing initiatives programmed in the Navy's budget as well as identification of new savings opportunities to generate additional resources towards recapitalization. As such, the DON sought to eliminate non-core functions that unnecessarily compete for resources. Cost savings initiatives were developed to help find savings throughout the DON. A summary of Sea Enterprise initiatives and resultant savings from President's Budget (PB) 03, PB04, and PB05 were collected by and presented to the Sea Enterprise Board of Directors on 9 July 2004. Figure 4.2 below summarizes the harvest.



Figures above reflected in billions (\$)

Source: PowerPoint Brief to Sea Enterprise Board of Directors. *State of Sea Enterprise Savings Harvest: PB 03, PB 04, and PB 05 Initiatives*, 9 July 2004.

Figure 4.2 Overall Savings Harvest Reflected in PB05

Sea Enterprise initiatives were expected to produce \$46.2 billion (\$44.4B Navy and \$1.8B Marine Corps) of net savings to the Department over the FY03-09 period. To reflect the savings in the Navy budget and/or programs, spending levels of individual budget line items were reduced accordingly. The money was taken away, as if it had been saved.

As of the summer FY04, 33% (\$14.8B) of the savings were lost.¹⁸ Further, 4% (\$1.9B) was not auditable, and therefore could not be considered savings. 84% (\$23.4B) of the remaining \$27.7 billion that could still be saved had, in fact, already been “saved.” That is, based on the initial figures, it was reported that \$23.4 billion had been harvested. Plus, an additional \$4.3 billion are expected to be harvested for a total of \$27.7 billion of savings through FY09. Overall, according to these figures, Sea Enterprise initiatives will realize 60% of forecasted savings of \$46.2 billion.

b. Savings Identified in Congressional Backup to PB06 Budget Request

An updated set of savings estimates was used for Congressional back-up to support the PB06 budget request on Capitol Hill. Although not confirmed, the author is reasonably assured that the following savings estimates were derived from the PBIS database for the Corporate Business Council (CBC). The report stated that Sea Enterprise had identified \$44.9 billion across the FYDP in cost avoidance¹⁹ through efficiencies (Final Business Transformation Input, 2005). Further, it was determined that the FY05 budget alone reflects approximately \$5.4 billion in avoided costs. These savings were recorded as a result of a series of initiatives started in FY01-03 by the SE BOD. In addition to the FY05 benefits, the FY01-03 initiatives resulted in approximately \$3.7 billion of avoided costs over FY02-04 and an estimate of approximately \$14.7 billion in cost avoidance over FY06-09. As such, for the entire FY02-09 period, total avoided costs are estimated to be \$23.8 billion. Navy leadership, to include the 3-star BOD, validated and ensured that execution of these initiatives and associated savings remain on track.

¹⁸ Various reasons for lost savings will be explained in follow-on sections.

¹⁹ In essence, cost avoidance is not considered savings; efficiencies are not identified and the costs will continue to be “real” in the out-years.

c. Sea Enterprise Savings Tracked by FMB

As previously mentioned in this chapter, FMB recognizes Sea Enterprise initiatives to include LOE I, LOE II, Correct LOE Adjustment, LOE Technical Correction, and NAVSUP Transformation. Not surprisingly, there is a significant disparity between FMB's savings estimates (as depicted in Figure 4.1) and those of the Echelon II Commanders/Resource Sponsors (as depicted in Table 4.1). Specifically, FMB recognizes \$898 million (see Figure 4.1) in "identified" savings across the FYDP, while the SE BOD estimates \$27.7 billion. Additionally, Echelon II Commanders, Resource Sponsors, and FMB reapply and shift money within accounts to fund other high priority requirements.

FMB moves to "balance" budget accounts in the budgeting phase. Balancing is required to match the PBIS database to the Office of the Secretary of Defense Comptroller Information System (OSD CIS)²⁰ database at each submission of budgetary data. That is, there is a prioritized list of items to be funded so, if and when funds are available (i.e., identified savings), the list is addressed in order of precedence, as indicated by Navy leadership.²¹ Savings may be applied to programs to achieve the OSD "balance" where that action is based on knowledge that the program was short of funding prior to the review, the CNO (or other top level officials) had expressed concerns with the program, or simply an account is needed to place some funding to achieve a certain appropriation/budget activity mix of funding as specified by OSD. In the latter case, FMB attempts to augment programs that may need funding in the future, or have an unusual profile that will be hard to justify.

Overall, numerous considerations in the end game may defeat savings efforts that are loosely worked toward. In some cases, Navy leadership directs FMB to "buy back" some portion or all of a reduction that was identified at the beginning of the PPBE cycle. It is also important to recognize that savings targets and initiatives are

²⁰ The Office of the Secretary of Defense Comptroller Information System (OSD CIS) is used by OSD to convey budgetary adjustments to each Service's and Component's funding controls. It also provides a family of supporting reports that highlight these CIS changes by certain categories (Program Budget Decisions (PBDs), for example).

²¹ In this case, leadership is referred to as any one of the following: the Secretary of the Navy, the Assistant Secretary of the Navy (Financial Management and Comptroller), the Chief of Naval Operations, or the Vice Chief of Naval Operations.

typically driven by OPNAV while the rest of the budget cycle is run by the Secretariat. Since Sea Enterprise is perceived as mainly an OPNAV effort (not an enterprise-wide effort), if objectives and targets are not clearly communicated through the FMB analysts and subsequently through the OSD analysts, then all efforts to harvest savings may be defeated or significantly jeopardized.

As stated above, harvested savings can be less than forecasted due to adjustments made throughout the “process” and in the end game. For example, in 2003, a “Level of Effort” program was initiated by N8B. Specifically, a 10% reduction was directed to selected programs. Approximately \$300 million was taken from OMN (Operations and Maintenance) support programs (in general). After taking into consideration inflation and other end game adjustments, the targeted programs had a net decrease of only \$90 million. The effort was genuine, but once OSD issued final controls, the aforementioned programs were adversely affected.²² Hence, even when there is effort given to identifying and realizing savings, harvested savings can be less than forecasted due to adjustments made throughout the “process” and in the end game.

4. A Unifying Definition of *Realized* “Savings”

“Savings” are being tracked and reported by several different entities throughout the DON. However, as stated above, there is a lack of transparency and accountability in the Navy’s systems. Further, and arguably more importantly with respect to *harvested* savings, a standard definition for what constitutes “savings” (with respect to Sea Enterprise) does not exist.

Within the DON, there must be consensus and understanding as to when savings are, in fact, “savings.” This need is especially pressing for Sea Enterprise. The term “savings” is used throughout the DON and conjures a variety of meanings. For example, the term “savings” is used when efficiencies are identified within a particular program or account prior to execution. There are many “fact of life” adjustments that can hinder the realization of savings at this stage. The term “savings” is used when funds are “left over” or unexecuted in an execution year within specific Echelon II Command accounts. At

²² Example per FMB staff.

this stage, and as previously mentioned, money can be reapplied by the commands to meet other high priority needs. The term is used when Echelon II commands enter unexecuted savings data in PBIS and forward them to the cognizant Resource Sponsor. At this stage, the Resource Sponsors, who typically act in the best interest of their communities (not necessarily the enterprise), may reapply money for “must pay” bills.²³ Therefore, as stated earlier in this chapter and for purposes of this thesis, savings should be recognized as *harvested* or *realized* “savings” when (and only when) unexecuted funds are returned to the CBC/N8 for recapitalization (with final discretion of the CNO), as it was intended when Sea Enterprise was initiated.

Ensure savings are harvested and returned to the corporation for reallocation against other Navy priorities.

ADM John B. Nathman, VCNO and Mr. Dionel M. Aviles (USN)²⁴

5. Actual *Realized* “Savings” Per Unifying Definition

Despite reported savings by different agencies throughout the DON, actual *realized* “savings” (those savings returned to the CBC/N8 for recapitalization) appear to be a lot more modest than the tens of billions of dollars reported as identified and harvested. In summary, the savings figures reported by the SE BOD show that \$46.2 billion in savings have been identified across the FYDP and \$23.4 billion have been harvested (with an additional \$4.3 billion pending across the FYDP); the CBC reports that \$44.9 billion in savings have been identified across the FYDP, the FY05 budget alone reflects \$5.4 billion in avoided costs, and that the expected harvest is \$23.8 billion across the FYDP, and finally; FMB recognizes \$898 million across the FYDP in identified savings as a result of Sea Enterprise initiatives they track.

Using a more restrictive definition of *harvested* or *realized* “savings” as when (and only when) money has been returned to the enterprise (CBC/N8) for recapitalization and/or modernization. This analysis has determined that *harvested* savings more closely

²³ It is important to understand that “savings” are, in fact, realized at the Echelon II and Resource Sponsor commands. Savings referred to here are strictly *Sea Enterprise* “savings.” If “savings” are the single most telling measure of success, then a standard definition of *Sea Enterprise* “savings” must exist.

²⁴ Abstracted from: Promulgation of the CBC Charter for Sea Enterprise Governance (22 OCT 2004).

approximates a much smaller total \$40 million.²⁵ For comparison, actual savings is just .08% (\$40M/\$46.2B) of what the SE BOD estimated across the FYDP and .17% (\$40M/\$23.5B) of what was reported as harvested. Also, actual savings is .09% (\$40M/\$44.9B) of what the CBC estimated and .17% (\$40M/\$23.8M) of the expected harvest across the FYDP. Additionally, \$40M of actual savings is just 4.45% of what FMB recognizes as identified savings. However, as indicated earlier, FMB does not recognize the same Sea Enterprise initiatives as the CBC and previously, the SE BOD.

The percentages indicated above do not alone serve as an accurate or appropriate measure of the success (or failure) of the Sea Enterprise effort. Rather, the percentages create a more realistic framework for reference. By establishing consensus as to what truly constitutes savings and identifying the many obstacles to achieving them, the enterprise can start communicating in “real” terms and establish equal footing.

C. CULTURE

As stated in Chapter II, the culture of an organization speaks of the values, beliefs, and behaviors that are shared by the members of the organization. It is first essential to note that the values, beliefs, and behaviors must be *shared*. That is, a change in culture occurs throughout an organization, and not just with a few individuals. Changing a culture, altering behaviors and attitudes, does not necessarily result in changing everything an organization does, but rather changes the way an organization thinks about what it does and how it does it. Consider the following example: it is easier and more effective to act one’s way into right thinking than to think one’s way into right acting.

It is critical to understand that in the Department of Defense there is resistance to change which is part of the reason efficiencies are difficult to achieve. The Chief of Naval Operations wrote in his guidance for 2005, “Bringing the fight to our enemies is our mission. Transforming ourselves and our great institution for the dangerous decades ahead is our imperative (Clark, 2005).” The primary and overriding mission of the Navy is to fight and win wars. Although “transforming” is mentioned in the CNO’s mission statement, there is no mention of efficiencies (i.e., transforming efficiently, winning

²⁵ As reported by co-chair of the CBC.

efficiently, etc). Without specific mention of “efficiency” in the mission statement, or changing the culture to expect efficiency in all aspects of personal and organizational behavior, the Navy should not expect efficiency to become a top priority. That is not to say efficiency should come at the expense of losing a war, but rather efficiency could help the Navy win wars at lesser cost and help maximize resources; as the Sea Enterprise publicity states: Right Force, Right Readiness, Right Cost.

The United States Navy still most closely resembles a culture of *command and control*. Echelon II Commanders and Resource Sponsors continue to defend and act on the best interests of the community they support rather than that of the enterprise. There is no incentive to do otherwise. These agencies, in general, reapply money (identified as savings) at their own level to: (1) fund high priority items that they feel will not be funded if savings are returned to the enterprise; and (2) avoid cuts in following years. Furthermore, numerous adjustments are made in the end game by FMB through pressure from OSD to “balance” accounts. The Savings Target reviews of POM06 tried to get ahead of this maneuver by working the review in the Program Phase, but still resulted in Resource Sponsors re-shuffling to balance Sponsor Program Proposals (SPPs), as opposed to providing cash back to the CNO for recapitalization. That is, the process of savings is hindered by current cultural norms and behaviors, reflected in the maintenance and protection of the status quo. The following subsections describe some imbedded cultural issues that continue to plague the United States Navy and to strangle initiatives that invoke change.

1. Pressure to Spend

Commanders must take painful steps to achieve efficiencies in day to day operations. Even when they are inclined to search for extra efficiencies to return to the enterprise, Commanders have little financial incentive to find them because those who save money generally do not benefit from the savings. The DON executes based on its annual budget. Failure to spend one’s entire annual budget reduces the chance of maintaining that budget in future years. As a result, when budgets have not been spent in full (i.e., savings have been identified), then a nagging question is raised: does your

organization need all of its funds (Hale, 2002)? Consequently, budgets are cut. Therefore, there is no fiscal incentive to achieve savings in the interest of the enterprise.

For example, the Naval Supply Systems Command (NAVSUP) has made some noteworthy changes in their organization. Their “4-Phase Focus” (discussed in follow-on sections) helped the Command realize \$35 million in harvested savings in FY04. NAVSUP set out to achieve efficiencies within its organization to contribute to the enterprise. Despite sacrifices made to realize savings, and the discipline to return those savings to the enterprise, NAVSUP’s budget was cut in FY05. Although there are other drivers to reducing budgets, in this case, it appears that one of the reasons the organization’s budget was cut was a result of operating more efficiently. Hence, there is pressure to spend one’s money rather than to identify and realize savings (Criswell, 2005).

2. Incentives

Even if Commanders are inclined to identify initiatives, search for efficiencies, and realize savings, (as stated above) they have little financial incentive because those commands that save generally do not benefit from the savings. Even though the DON has restructured the POM process and implemented the Program Review (PR) process in the odd years, there is still a certain level of scrutiny given to the budget on an annual basis. New threats to national security, high profile programs, pork²⁶, etc. constitute reasons for making adjustments to (or extracting money from) an account that has been more efficient in the past year and has realized savings.

Unless top leadership creates a system in which there will be no retribution for realizing savings and commands can receive a portion of their harvest for gain sharing purposes (to continue to motivate personnel to seek greater efficiencies) commands will continue to either spend their budgets in full or reapply savings at their own level. There is no policy or mechanism in place that allows a portion of the savings to be returned to

²⁶ Pork, according to *the Webster’s Dictionary*, is a government appropriation that provides funds for local improvements “designed to ingratiate legislators with their constituents (Jones and McCaffery, 2003).”

the commands that identified and harvested the savings. As such, commands do not reap any benefit for their efforts to become more efficient.

In some recent cases, Commanders have expressed a willingness to sacrifice command goals for the sake of the enterprise.²⁷ This reaction may be a result of a slowly changing culture. However, Commanders stated that the command goals that will be unachievable must be communicated to the CNO. The understanding is that the CNO would then prioritize between the goals of the Commander (approved by the CNO) and return savings to some part of the enterprise. In these cases, the Commanders do not want to be held accountable for the goals that they cannot attain as a result of their sacrifice. Therefore, expectations of outcome would be changed and goals not met as a result of savings.²⁸

In some cases, (although it may seem obvious, it is important to report) the lack of awareness of Sea Enterprise and its associated initiatives, results in the lack of incentive to save. Although Echelon II commands have been the target audience of the Sea Enterprise “message,” lower Echelon levels of command must be aware of the Sea Enterprise effort, its vision, and associated initiatives if they are to be incentivized to behave any differently (i.e., become more efficient) than they currently do.

3. Congressional Intervention

Empowered by the Constitution of the United States, the Congress has the sole authority to raise (provide and maintain) a Navy (and Army). Additionally, the Congress and a significant contractor base also bring public opinion to bear in the difficult issue of how much to spend on Defense (Hale, 2002). However, the nature of the Congressional system does not favor efficiency. In some cases, Congress appropriates funds for programs not requested by the Department of Defense. As a result, the programs for

²⁷ As per interview with CBC member.

²⁸ Although this may seem like a logical process in that Commanders will not be susceptible to retribution; this may be a dangerous path to follow. It may not be prudent to start sacrificing goals for the sake of returning savings to the enterprise. The goal of Sea Enterprise, as the author understands it, is to return savings to the enterprise while still meeting all of the organization’s goals and meeting expected outcomes. It is understood that this task becomes increasingly difficult when programs are not fully funded, and therefore adds to the complexity of this issue.

which funds are appropriated often meet political rather than military needs. This is referred to as pork (mentioned in the previous subsection). Pork spending creates inefficiency.

Senator John McCain has argued that recent Defense bills contain anywhere from \$2 billion to \$7 billion in added programs not requested by the administration, earmarks that identify funds for particular businesses or institutions, and increases for what McCain terms low-priority programs.²⁹ This equates to approximately 1-3% of total Defense spending. Again in 2004, Senator McCain communicated his concern about pork spending; "...there is over \$11 billion in unrequested, unauthorized, run-of-the-mill pork projects contained in the 1,182 pages of this conference report (FY04 Appropriations Bill).³⁰ Although many might debate which programs are included in Senator McCain's figures, there is little doubt that these figures provide some notion of the level of spending.

Pork spending creates a culture of inefficiency that permeates Congress, the Department of the Navy, and subsequently the Department of Defense as a whole. Unless policies are put in place to limit or restrict Congress from funding political needs, inefficient pork spending will continue to stifle progress made by Sea Enterprise and associated initiatives and culture change efforts.

Moreover, Congress imposes strict controls on transfer authority as it pertains to "time" and "color" of money. Currently, the Secretary of Defense has transfer authority that may not exceed \$1.5 billion of the total appropriations to the Department of Defense for that fiscal year (FY05 Appropriations Bill). Increased leniency in transfer authority between appropriation accounts (e.g. between Operations and Maintenance and Procurement accounts) would allow for greater flexibility in "accounting" for savings and take advantage of a mechanism already in place to facilitate recapitalization.

²⁹ Press release by Senator John McCain on H.R. 4205: The National Defense Authorization Act for Fiscal Year 2001, October 12, 2000. The press release discusses both the authorization and appropriation acts for 2001; abstracted from Hale, 2002.

³⁰ A press release titled "Statement of Senator John McCain on the FY04 Omnibus Bill", 22 January 2004.

D. LEADERSHIP

1. Accountability

For any change to be meaningful and lasting, leaders must hold their “direct reports” accountable for implementation and execution of initiatives. This idea mandates that some form of an audit or review be implemented, especially in the beginning. With a certain level of scrutiny involved in the process, commands will work towards achievement of the objectives.

Every year since the inception of Sea Enterprise (2002), the CNO’s Guidance has assigned Sea Enterprise tasking to Navy leadership. N40 staff members actively track tasking assigned to the Corporate Business Council. However, beyond what is reported in quarterly and end-of-year updates to the CNO, there is no existing database/mechanism or staff that tracks *all* of the Sea Enterprise tasking. If the organization is serious about change, it must be serious about holding itself accountable for all change initiatives.

As previously mentioned, in some cases Echelon II Commanders and Resource Sponsors reapply money at their own level and in the interest of their own communities. However, this response directly violates the mandate to return savings to the CBC to recapitalize and modernize the fleet in an effort to realize the goals of Sea Power 21. However, commands are not held accountable for this action. Hence, Commanders will continue to reapply money at their own level if there are no repercussions and consequences.

Echelon II CNO Execution Reviews appear to hold commands accountable for Sea Enterprise initiative implementation. However, this research suggests this is not sufficient. Many adjustments are made throughout the year, especially toward the end of the fiscal year. Therefore, CNO Execution Reviews and quarterly/end-of-year updates may not present an accurate assessment of the command’s progress toward changing the culture, achieving efficiency, and realizing savings.

2. Awareness

Cultural change within the Navy cannot occur unless the driving force behind the change, the CNO, communicates the mission and vision of Sea Enterprise throughout the enterprise. Top level leaders, and specifically Echelon II Commanders, have been identified as the target audience with respect to development and implementation of the initiatives. This communication is essential for creating a buy-in and initiating top-down leadership. CBC governance states, “[t]he establishment of a corporate decision-making body to motivate and facilitate progress on Sea Enterprise initiatives is necessary to facilitate this transformation process.” But, if the organization is not cognizant of the effort, and actions are not taken to translate awareness into action, no meaningful change will occur.

3. Creating Short-Term Wins

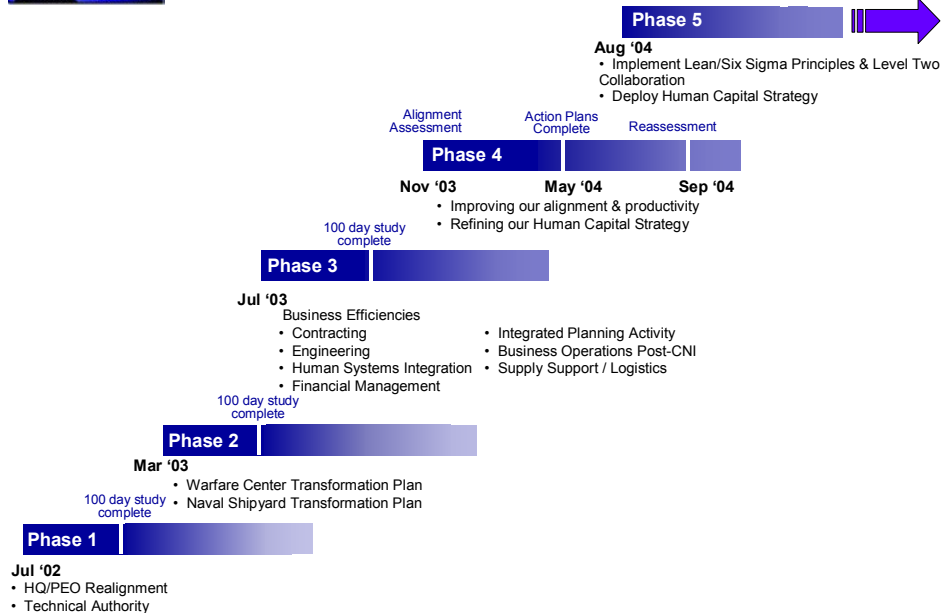
Real transformation takes time, and [transformation] risks losing momentum if there are no short-term goals to meet and celebrate (Kotter, 1990). As such, there have been noteworthy changes that have proven successful in pursuit of Sea Enterprise objectives. Some commands have adopted private sector business practices in an effort to become more agile, more effective, more efficient, and more responsive. A few examples are provided in the following paragraphs.

a. Naval Sea Systems Command (NAVSEA)

In 2003, NAVSEA embarked upon a transformational journey. The organization has engaged in a phased approach which aims to lay the foundation necessary to institutionalize continuous improvement, focus on shaping the workforce, efficiently run the “business” using Lean and Six Sigma principles, and capture savings to support recapitalization of the Fleet. Figure 4.3 depicts a graphical representation of NAVSEA’s phased approach.



NAVSEA Phases of Transformation



Source: NAVSEA Commanders Guidance 2005

Figure 4.3 NAVSEA Phases of Transformation

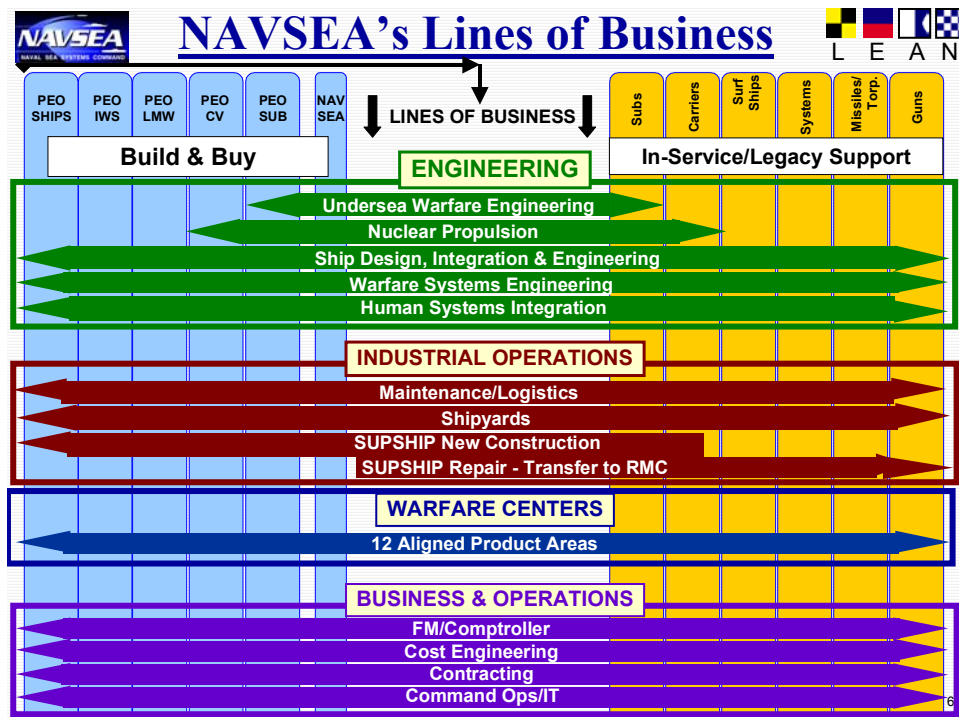
On 14 January 2005, NAVSEA promulgated its “Task Force Lean – NAVSEA Lean Implementation Plan.” This plan outlines the roadmap for implementing Lean Six Sigma principles at NAVSEA Headquarters, associated Program Executive Officer (PEOs), Shipyards, and Field Activities. NAVSEA Lean includes the industry recognized best practices of Lean, Six Sigma,³¹ and Theory of Constraints, and prioritized application of these methodologies to the right value streams to achieve maximum business results (NAVSEA Lean Implementation Plan, 2005).

Of particular note, NAVSEA has conducted 17 Execution Reviews with Echelon 3 and 4 commands. Commanding Officers presented their Execution Plans, performance metrics, and strategies in support of NAVSEA’s and CNO’s 2004 Guidance.

³¹ Lean and Six Sigma are corporate business practices that emerged in the private sector in the 1990’s and have more recently been adopted into the public sector; namely the Department of Defense. Lean is a toolset that eliminates waste, speeds up the value delivered to the customer, and helps create the most efficient system to deliver what the customer expects. Six Sigma is a toolset that eliminates variation, fosters fact-based decision making, and helps create a system that consistently delivers what the customer expects.

Also, multiple Commanding Officers and senior leaders attended every review, enabling leaders to effectively share lessons learned from other command initiatives.

NAVSEA and the PEOs have set a goal of achieving \$250M savings in FY07 above and beyond current intelligent targets. Also, they endeavor to reduce lead times for their products and services. Initial efforts have been focused on Warfare Centers and Shipyards, but the plan is to cover all organizations through the NAVSEA Lines of Business (LOB) and PEO Business model. That is, NAVSEA's Task Force Lean initiative will be executed through the Command's four LOBs – Engineering, Industrial Operations, Warfare Centers, and Business Operations – and the PEOs. Figure 4.4 illustrates the NAVSEA LOB and PEO business model and how the LOBs, in conjunction with the PEOs and Program Managers (PMs), span the entire spectrum of the ship and weapon life cycles – from research and development to design to acquisition to sustainment to ultimate disposal.



Source: NAVSEA Commanders Guidance 2005

Figure 4.4 NAVSEA Lines of Business (LOBs)

NAVSEA has engaged in various initiatives³² in an effort to transform its organization and become more efficient. Further, a top-down leadership approach has been communicated to and engaged in at the Echelon 3 and 4 levels which may help create a culture of greater efficiency. Additionally, NAVSEA's LOB approach allows all levels of the organization to work collaboratively, thus promoting the change to a collaborative culture. The key to NAVSEA's success will be its ability to maintain a sense of urgency and continue to act itself into a new way of thinking.

b. Naval Supply Systems Command (NAVSUP)

The Naval Supply Systems Command (NAVSUP) has made some noteworthy changes in its organization. They have engaged in a "4-Phase Focus" approach. The phases consist of: Phase I, Recapitalization; Phase II, Products and Services (i.e., identifying what they mean to the community); Phase III, Enterprise Resource Planning (ERP); and Phase IV, Human Capital Strategy. Overall, Phase I consisted of identifying NAVSUP's mission and organizational alignment. The community established some new commands, while others were consolidated or eliminated altogether. Furthermore, functional area changes were made to streamline processes. Within the contracting domain, contracts were awarded to consolidate ten procurement servers into one. Within the financial management domain, fourteen comptroller shops were reduced to four, with a total financial management workforce reduction of 134 billets (NAVSUP, 2005).

During Phase II, NAVSUP shifted its mission and alignment focus from external to internal. As such, the organization identified its products and services, aligned corporate costs to products and services, identified a measurable output, assigned accountability, and drove down costs by driving efficiency into processes. Phase II has confirmed that there is still work to be accomplished. It has also initiated a revisit to Phase I to institutionalize Lean and Six Sigma principles. Overall, NAVSUP has made a concerted effort to become more efficient and realize savings.

³² The initiatives annotated here are not conclusive but rather provided as examples of business practices adopted and recently implemented throughout NAVSEA's organization.

c. Logistics Planning and Innovation (N40)

The Logistics Planning and Innovation Office (N40) has operated as a silent partner throughout the “life” of Sea Enterprise. Mr. Mark Honecker serves as the Executive Secretary to the CBC (Corporate Business Council). Therefore, his staff has assumed all administrative responsibilities to include publishing the meeting agendas and procedures, disseminating schedule information and maintaining and publishing records of meetings. Specifically, the N40 office has embarked on a communications campaign, initiated incentive award programs, coordinated and planned off-sites with Sea Enterprise principals, and arranged industry visits to gain knowledge of transformation best business practices first-hand, among others.

The N40 office has developed a Sea Enterprise website where information regarding the effort is communicated. The website provides links to various documents, briefings, and guidance. It advertises success stories throughout the Navy in an effort to convey how Sea Enterprise is influencing the workforce. Also, in the effort to foster innovation in the workforce, N40 has drafted the Sea Enterprise Innovation Awards Program. The purpose of the award is to promote innovation by recognizing and rewarding productivity/efficiency initiatives that help transform the manner in which Naval Forces are supported. Further, by creating a database of successful innovations, N40 hopes to communicate them and leverage learning across the enterprise. Additionally, this program endeavors to:

- Raise senior leadership awareness about successful innovations that advance the objectives of Sea Enterprise;
- Incentivize better business process practices, capabilities and results;
- Facilitate communications and sharing of best practices among commands of all types;
- Serve as input for better understanding and management of the innovation process;
- Inform organizational strategy, planning and opportunities for learning (Source: DRAFT Sea Enterprise Innovations Award, N40).

Also, the program has been created to eliminate redundancies, change processes, and improve productivity; thus incentivize new behaviors (culture). Ultimately and ideally, this award will help create more savings in support of Sea Power 21.

Numerous off-sites have been coordinated by N40. Most of the off-sites have involved Echelon II commands and typically focus on developing metrics for command operations. However, an off-site was conducted with N4 (and associated stakeholders) in January, 2005 that focused on strategic issues. Overall, off-sites have been a useful tool to collaborate ideas, generate methodologies, and communicate expectations.

Overall, N40 has helped develop and communicate new Sea Enterprise initiatives, track CBC Sea Enterprise tasking from the CNO, leverage new ideas from the fleet, among many other initiatives. However, these efforts are a result of a collateral duty assigned to N40. As depicted throughout this chapter, the breadth of obstacles associated with the success of Sea Enterprise are many. In fact, the efforts made by N40 to propel the Sea Enterprise effort are astonishing. Nonetheless, their mandate seems overwhelming. If the enterprise is serious about change, then serious measures must be taken toward change.

d. Short-Win Summary

As stated in Chapter II, it is important to keep short-term gains as part of the overall strategy because when people realize that progress toward the achievement of the goal will take a long time, interest level drops. Therefore, commitment to short-term gains keeps the urgency level up³³ and forces analytical assessment and analysis that can clarify or revise visions.

However, it is important to understand that although business practices have been implemented, methodologies tested, and restructurings have occurred, this analysis concludes there is insufficient evidence that these initiatives have contributed to achieving the goals of Sea Enterprise. If harvested savings (as identified by the unifying

³³ This is true provided that a sense of urgency exists. In this case, the enterprise as a whole does not have a sense of urgency.

definition: savings that are realized once returned to the enterprise) is the single most telling measure of success of Sea Enterprise, then the measurable outcome to date as measured by harvested savings is relatively small. Some say about \$40 million. Creating efficiencies, then identifying and harvesting savings within a command are only part of the “process” of savings. Returning savings to the enterprise must follow to complete the harvest. Until such business practices, methodologies, restructuring, and Congressional restraints in law can be directly and identifiably tied to savings returned to the enterprise (CNO/N8) then the “success” of Sea Enterprise cannot be determined with any reasonable accuracy.

E. CHAPTER SUMMARY

Overall, this chapter provided the analysis necessary to respond to the research questions raised in Chapter I. First, the “process” of realizing savings was identified to analyze the various identifiable obstacles to reaping *harvested* savings. It is a course of action that requires communication, clarity of purpose, and consensus and perhaps most importantly, accountability and execution. Second, this chapter presented an analysis of the Sea Enterprise effort to change the existing culture of *command and control*. Imbedded cultural norms make change management difficult within DON. Third, leadership involvement in the overall effort was discussed. Top-down leadership is essential to success, however issues such as accountability and awareness (penetrating lower levels of the organization) hinder creating a sense of urgency and guiding coalition, thus lessening the impact of the effort. Then, under the management umbrella of leadership, some examples of short-term wins were identified as a result of implemented business practices.

V. CONCLUSIONS AND RECOMMENDATIONS

A. SUMMARY

This thesis examined the Department of the Navy's Sea Enterprise effort from its inception in June 2002 to May 2005 (the time of this research). The ability of Sea Enterprise to create efficiencies throughout the organization and ultimately to harvest savings was explored to assess whether it has made an impact on recapitalizing and modernizing the U.S. Navy, thus enabling the Sea Power 21 vision to create the right force, with the right readiness, at the right cost.

Chapter I provided an introduction and outlined the research questions that were analyzed and from which conclusions made in this thesis were drawn. Chapter II supplied background information to lay the foundation for the issues raised throughout this thesis. Further, the chapter explored topics that related to the highly complex matter of identifying and realizing savings within the United States Navy. Those topics included a highly interrelated mix of managerial issues such as organizational culture, leadership, execution and cutback management. Chapter III identified a unique and dynamic set of goals and objectives, structures, responsibilities, and processes which present a range of issues that can and do impact the effort as a whole. Chapter IV analyzed the research questions posed in Chapter I. The analysis was framed on the basis of identifying the "process" of realizing savings, the desire to change the Navy's organizational culture, and the leadership involvement in the Sea Enterprise effort.

The research methodology used for this thesis consisted of collecting relevant data from a variety of sources for correlation, comparison, and analysis. Books, memoranda, briefs, testimonies, instructions, internet sites, magazine and journal articles, among others were reviewed. Additionally, a series of personal interviews with high level Department of the Navy military and civilian leaders was conducted. As a result of a thorough investigation of the sources stated, an analysis was conducted.

As discussed in this thesis, the Navy must transform its structures, processes, and ways of doing business as a result of spiraling operating costs, force structure trends, an aging force structure, and increasing manpower costs. The Navy is under pressure to do

more within given resources as requirements and operating costs rise and funding levels increase slightly or remain flat. Furthermore, the Navy must transform to replace Cold War-era systems to combat new, asymmetric threats that have made it more challenging to bring the fight to the enemy. This issue remains paramount. Given major changes in the geo-political world, and the high cost of defending the nation, one seeks to understand the threat fully and then on that basis construct the appropriate force to influence or combat the enemy. Therefore, from a Sea Enterprise perspective, the Navy must not only bring the fight to the enemy, but do so with the right force, with the right readiness, at the right cost. Further, the Navy must foster and sustain a culture of innovation and efficiency to help realize the savings necessary for recapitalization and sound management. As such, Sea Enterprise is critical to this effort.

It is important to understand that the purpose of this thesis was not to present a case study of Sea Enterprise. Although there are various examples of successes in Echelon II commands that ought to be acknowledged (select cases summarized in Chapter IV), it was not the primary purpose of this thesis to research and report on such successes. Rather, this thesis aimed to determine if the Department of the Navy has realized the savings forecasted for the various Sea Enterprise initiatives and to surface the various fundamental issues and challenges associated with the effort. By identifying the various issues and challenges, this thesis has sought to offer recommendations to accelerate the effort. Moreover, cultural resistance to change, onerous bureaucratic frameworks, accountability, awareness, and fiscal and organizational disincentives to save represent a few of the issues and challenges the Navy faces. To realize savings, recapitalize the fleet, and meet the twenty-first century threat (principally, the Global War on Terrorism (GWOT)), the Navy must address and surmount such hurdles. This thesis also offers recommendations for top level Navy leadership to help establish equal footing across the enterprise, a clarity of purpose, a single point of reference, and a strategy to accelerate the Sea Enterprise effort.

B. LIMITATIONS

Several variables limited this research. One limitation was the restricted timeframe during which research was conducted. The timeframe did not allow for

multiple travel opportunities to collect data from the various commands with ties to the Sea Enterprise effort. As a substitute, email and telephone correspondence was utilized.

At the time of research, the author was unable to establish that a Plan of Action and Milestones (POA&M) for Sea Enterprise existed. As such, it was difficult to determine what stage of development the effort was in. Although implementation of a POA&M would be effective to track progress in the early stages, a Sea Enterprise “life” prolonging mechanism should be established to facilitate continuous change for the long run. As a result of this research, it was concluded that Sea Enterprise is still in the initial stages of development.

As a result of this research, several different “savings” data sets were discovered. A single point of reference with respect to the Sea Enterprise effort was unidentifiable. That is, a single point of reference for the following key elements does not exist: CNO Sea Enterprise-related directives, initiative generation, initiative implementation, initiative execution, initiative status tracking, savings identification, savings tracking, savings accountability, and savings returned to the enterprise (harvested savings). This limitation required the author to compare and analyze data from numerous sources from which conclusions and recommendations were made.

Based on the research conducted, uniformity in terminology and in accountability in procedures and responsibilities were not evident; thus it was difficult to navigate throughout the Sea Enterprise “process.” As a result, it was challenging to determine the “real” amount of harvested savings Sea Enterprise initiatives may have generated. Therefore, data were analyzed on the basis of the “process” of savings and the unifying definition of what constitutes savings identified by the author.

C. CONCLUSIONS

Given the reasons stated throughout this thesis, the Sea Enterprise effort is essential to the DON to change the existing culture and behaviors, to change the structures and processes, and perhaps most importantly, to harvest savings. The Sea Enterprise effort has resulted in efficiencies and realized savings at the Echelon II level as reported by Echelon II Commanders. In some cases, streamlined processes and improved

business practices have made a noticeable impact. Commands currently employing a significant number of Sea Enterprise initiatives are the Naval Sea Systems Command (NAVSEA), the Naval Air Systems Command (NAVAIR), the Commander, Naval Installations Command (CNI), and the Naval Supply Systems Command (NAVSUP), among others. However, according to the purpose of Sea Enterprise as understood and identified by the author, the effort as a whole does not appear to have met its intended objectives to date.

Ensure savings are harvested and returned to the corporation for reallocation against other corporate Navy priorities.

Admiral Vern Clark, CNO Guidance for 2005

Using this absolute definition by the CNO, the original premise of Sea Enterprise has not been realized. The conclusions in this chapter were derived on this basis. Furthermore, some recommendations are provided that may help accelerate the Sea Enterprise effort.

1. Clarity of Purpose

As a result of this research, the author concludes that the purpose of Sea Enterprise is to utilize harvested savings to recapitalize the fleet in support of the Sea Power 21 vision (Clark, 2005; Aviles and Nathman, 2004; Mullen and Young, 2003). Further, Sea Enterprise seeks to encourage innovation and the identification of efficiencies within Echelon II commands. In some cases, as a result of Sea Enterprise initiatives, efficiencies have been identified and thus savings have been realized. However, it appears that these savings are not being returned to the enterprise as was intended when Sea Enterprise was initiated. Overall, a clarity of purpose for the Sea Enterprise effort at the enterprise level and throughout the Department of the Navy is not evident. If consensus cannot be attained at the enterprise level as to the purpose of Sea Enterprise, then it can be reasonably asserted that efforts made to communicate the effort and create a guiding coalition may be futile.

2. Uniformity of Effort

Throughout the Navy enterprise, a standard definition for what constitutes savings does not exist. The term “savings” is used in various ways throughout the Department of the Navy which contributes to a lack of cooperation and uniformity of effort as a whole. Specifically, the term “savings” is used when efficiencies are identified within a particular program or account prior to or during execution. The term is also used when funds are unexecuted in an execution year within specific Echelon II Command accounts. “Savings” is also used when Echelon II commands enter unexecuted funds data in PBIS and forward them to the cognizant Resource Sponsor.³⁴

To address the disparity, a unifying definition of what constitutes *realized* savings is suggested: “forecasted savings” should be recognized as *harvested* or *realized* “savings” when (and only when) unexecuted funds are returned to the CBC/N8 (the enterprise) for recapitalization (with final discretion of the CNO).

Consensus has not been gained as to when savings are, in fact, considered savings. Savings are being reported in the tens of billions of dollars (\$20B-\$30B) however, according to the author’s unifying definition (indicated above) *harvested* savings more closely reflect approximately \$40M. Unless consensus is gained as to what constitutes savings and savings are identified and communicated in “real” terms, a common operating picture throughout the enterprise cannot be established, thus savings attributed to Sea Enterprise cannot be measured with any reasonable accuracy.

3. Harvested Savings: The Process and the Measure

The process of realizing *harvested* savings is bureaucratic, difficult, and not well-defined. Nor is it compatible with sound business practices (GAO, 2004). As depicted in Chapter IV, there are various factors that have influenced forecasted savings resulting in modest actual *harvested* savings. A few of these influencing factors (besides not having a clear definition of what constitutes savings) are high savings targets, “fact of life”

³⁴ These different uses of the term “savings” were drawn from various interviews conducted consisting of respondents who ranged from the Echelon II to OPNAV levels of command.

changes, reapplication of savings at the Echelon II or Resource Sponsor level, human error in data entry, pressure to spend budgets in full, lack of incentives to save, and congressional intervention.

The process of harvesting savings is not well-defined. That is, the savings “process” requires several exchanges where lack of accountability in the Navy’s financial systems and reapplication at the Echelon II and Resource Sponsor level contribute to savings “loss” and reapplication. However, as defined by the author, the steps in this “process” model are: the determination of initiatives to be pursued, implementation of initiatives, identification of possible savings due to efficiencies (and other reasons), tracking savings, and finally harvesting savings. This course of action requires communication, clarity of purpose, and consensus and perhaps most importantly, accountability and execution. Furthermore, not all entities track the same initiatives. The same Sea Enterprise initiatives must be recognized and tracked by all those commands involved in the “process” to prevent inadvertent loss of focus or inadvertent or deliberate adjustment to savings.

“Accounting” for savings is a prevalent problem within the Department of the Navy, and subsequently with the Sea Enterprise effort. Savings, even if properly managed, are susceptible to shrinkage or loss. Specifically, the DON financial systems lack the accountability, transparency, and integration among systems to “account” for savings accurately. Despite the implementation of a new budget database, the Program Budget Information System (PBIS), the DON continues to confront persistent financial and business management problems related to its systems, processes (including internal controls), and people (human capital).

4. Culture

The culture of an organization speaks of the values, beliefs, and behaviors that are shared by the members of the organization. A culture of efficiency still has not permeated the United States Navy. Pressure to spend budgets in full, lack of incentives to save, and in some cases congressional intervention contribute to the inefficiencies that still persist throughout the Department.

Within some Echelon II commands, efficiencies have been identified and savings have, in fact, been harvested. However, it appears that savings are not being returned to the enterprise for reinvestment as anticipated. The DON executes based on its annual budget. The belief is pervasive within DON that failure to spend one's entire annual budget (even when savings are realized), means that budgets will be cut in future years. Hence, there is a perceived retribution for efficient behavior.

Even if Commanders are inclined to identify initiatives, search for efficiencies, and realize savings, they are offered little financial incentive to do so because those commands that save generally do not benefit from the savings. Unless a system is created in which there will be no penalty for realizing savings and commands can receive a substantial portion of their harvest for gain sharing purposes (to continue to motivate personnel to seek greater efficiencies) commands will continue either to spend their budgets in full or reapply savings at their own level. Currently, there is no policy or mechanism in place that allows a portion of the savings to be returned to the commands that identified and harvested the savings. As such, commands do not reap any benefit for their effort to operate more efficiently and returning savings to corporate Navy.

Congress presents another obstacle toward efficiency. In some cases, Congress appropriates funds for programs not requested by the Department of Defense. As a result, the programs for which funds are appropriated often meet political rather than military needs. This behavior is referred to as "pork spending." Pork spending uses tax payer dollars for military programs in the states/districts of the representatives/senators, which provide jobs for the local population and constituency. As a result, programs not requested by DON are valued as job producing programs representing unnecessary 'fat'. Moreover, often what is given to the DON as pork does not include the full future cost of the item; e.g. dollars for maintenance, training, building runways or pier support structures may not be included. Therefore, pork spending creates a culture of inefficiency that permeates Congress, the Department of the Navy, and the Department of Defense as a whole.

5. Communication and Awareness

To operate as a more flexible and capable enterprise, the Navy must not only influence senior level Navy leadership to communicate the urgency of Sea Enterprise, but also penetrate the unit level. Without clear communication of the strategy, purpose, and goals of Sea Enterprise to the entire Navy, and appropriate incentives and constraints to guide behavior, the department will not obtain the following necessary to change the culture. Transformation, and more importantly the transformation of culture, will be possible only when thousands of people within the Navy are willing to help/contribute. This campaign should occur at every level of the organization, communicating the crisis of rising costs (discretionary, non-discretionary, shipbuilding, manpower, GWOT), thus creating a sense of urgency. Moreover, a positive image of what the future Navy should look like to meet and defeat any foe should provide a strong stimulus to change. Currently, awareness at the lower levels of the Navy is not evident which inhibits the effort as a whole.

Communication and agreement between OPNAV and the Secretariat needs improvement. It is important to recognize that savings targets and initiatives are typically driven by OPNAV while the rest of the budget cycle is run by the Secretariat. Currently, savings objectives and targets are not clearly being communicated to FMB analysts and subsequently through OSD analysts, and efforts to harvest savings are often defeated or significantly jeopardized.

6. Savings Targets

Sea Enterprise savings targets may be overly optimistic. In the midst of the GWOT and the war in Iraq, the cost of operations is increasing and, as stated in Chapter I, the Navy's share of TOA is not increasing. Also, the cost of human capital has continued to rise since the early 1990's despite extensive reductions in both civilian and military personnel. Therefore, forecasted savings levels in the tens of billions of dollars across the FYDP may not be realistic given the rising costs of operating the Navy.

7. Educated Driving Force

A Navy group of the “best and brightest” to serve as a compliance force for business process transformation within Sea Enterprise with the leverage to ensure results are achieved does not exist. The Chief of Naval Operations Strategic Studies Group (SSG) serves as a team of innovators that generate revolutionary warfare concepts to help introduce new leading technologies into the Navy. The SSG is a good example of a group of high-level thinkers that focus its efforts on war-fighting concepts, and therefore remain operationally focused. The Navy could adopt a similar model to research and develop revolutionary business and transformational venues.

D. RECOMMENDATIONS

1. Establish Equal Footing: Renew Strategy and Purpose

Every effort should be made to accelerate the Sea Enterprise effort. This thesis has described various reasons why Sea Enterprise is essential in facets such as force readiness, culture, survivability, and sustained change. However, in order to accelerate the effort, renewing or even redeveloping the Sea Enterprise purpose and strategy is recommended. One of the major impairments to Sea Enterprise is the absence of a strategy (to include a POA&M) for implementation of a communication campaign, savings initiatives, changing culture, capturing savings, and finally recapitalizing savings as was the stated intention for Sea Enterprise.

a. Establish a Single Point of Reference

Establish a single point of reference for CNO Sea Enterprise-related directives, initiative generation, initiative implementation, initiative execution, initiative status tracking, savings identification, savings tracking, savings accountability, and savings returned to the enterprise (harvested savings). The Corporate Business Council could assume this role. However, currently the CBC may not be staffed appropriately to adopt these responsibilities.

b. Renew Purpose

Renew the purpose of Sea Enterprise. One of the main determinants for the disparity between “reported” and “harvested” savings as reported in this thesis is the lack of consensus as to the purpose of Sea Enterprise. If, in fact, Sea Enterprise is the vehicle to foster an innovative culture, identify efficiencies, realize savings, and recapitalize savings in support of Sea Power 21, then it is recommended that this mandate be adhered to throughout the Navy. Further, once the purpose is defined, its measures of success should be clear. If harvested savings are the goal, then it should become the primary performance measure. However, as previously mentioned, the goal should be well-defined. That is, a unifying definition of what constitutes Sea Enterprise savings should exist. This thesis proposes that “forecasted savings” should be recognized as *harvested* or *realized* “savings” when (and only when) unexecuted funds are returned to the CBC/N8 (the enterprise) for recapitalization (with final discretion of the CNO), as it was intended when Sea Enterprise was initiated. By renewing and revalidating the purpose of Sea Enterprise coupled with establishing a single point of reference, the Navy can begin to address and talk about Sea Enterprise and associated savings in real terms. Thus, the real effects of Sea Enterprise can be communicated, evaluated, and validated throughout the Navy.

c. Develop Strategy and Devise Communications Campaign

Once the purpose is defined, a strategy for achieving Sea Enterprise goals and objectives (short-term and long-term) should be developed. Of all the objectives and goals that will be developed, influencing change by creating a sense of urgency, and thus harvesting enterprise savings should be among the items at the top of the list. It is important to realize that one objective relies on the next: harvesting savings will not occur unless change occurs and neither will occur unless a sense of urgency throughout the Navy is created. Further, it is suggested that the strategy incorporate a communications campaign that will broadcast the Sea Enterprise vision within and throughout the entire Department of the Navy to establish a following of thousands.

On a micro level, in order to penetrate and influence behavior at the lowest level, the communications campaign may serve as the vehicle to communicate, describe,

and show how individuals can and must become meaningful enablers of the “process.” Each individual within each command should have a clear understanding as to the “process” of harvesting savings (as indicated earlier in this thesis), where one fits into that process, and most importantly, how one’s behavior and execution of particular tasks can contribute to the Sea Enterprise effort. This will provide the individual Sailor and Officer as well as DON civilian with a sense of involvement and thus incentivize desired new behaviors. However, this strategy should be *well-developed* and *clearly articulated* in the communications campaign. Otherwise the initiative to promote Sea Enterprise and ultimately change the culture could potentially be forfeited.

One option for the communications campaign is to embark upon a Navy-wide Sea Enterprise stand-down initiative. Although, stand-downs typically have been reactive in nature, this dramatic action would allow Sea Enterprise leadership to contact thousands and communicate the potential crisis (of not realizing the Sea Power 21 vision) and the great opportunity Sea Enterprise affords them. The agenda for the stand-down should consist of, but not be limited to, the reasons why Sea Enterprise is necessary³⁵, its purpose, difficulties and challenges in realizing the goals, and most importantly, how each individual can and must become a meaningful enabler of the “process.” A stand-down could help serve as a branding opportunity for a marketing campaign. With a Sea Enterprise brand (e.g., Sea Enterpri\$e), the Navy could potentially create a sense of urgency and excitement among thousands of Navy personnel necessary to invoke deep change.

On a macro level, the strategy should be to communicate the purpose to top Navy leadership (4-star and 3-star BODs), as well as to the Echelon II Commanders. This communications campaign should entail face-to-face delivery. I propose that the most influential figure deliver the message, the CNO. Further, it must be emphasized that the overarching purpose for Sea Enterprise is to harvest savings at the *enterprise* level. Without Echelon II command cooperation and execution, substantial savings

³⁵ The reasons should be similar to those identified in this research: the Navy must transform its structures, processes, and ways of doing business as a result of increasing operating costs, force structure trends, aging force structure, and increasing manpower costs. Also, the Navy must transform to replace Cold War-era systems to combat new, asymmetric threats that have made it more challenging to bring the fight to enemies.

cannot be expected. Also, a Commander should be cognizant of the role his/her command plays in the “process.” That is, all commands must become meaningful enablers of the process to catapult change and realize true savings.

d. Set More Achievable Savings Targets

Sea Enterprise officials should ensure savings targets remain achievable. Due to rising costs in operating the Navy, as well as the GWOT and the war in Iraq, it is unlikely that the Navy can conceivably save money in the tens of billions of dollars (~ \$45B-\$50B as previously forecasted) and return that money back to the enterprise given the current policies and procedures. The Navy should certainly set stretch goals, but such goals should remain within its purview. By establishing a framework; that is, by clearly stating the goals and objectives of Sea Enterprise and ensuring that the processes and procedures are clear to attain the goals, then more achievable targets can be set and achieved.

2. Develop a Mechanism to Capture and Incentivize Savings

It is recommended that the Navy develop and implement a mechanism to capture and incentivize future savings. That is, the Navy should create accounts throughout the enterprise (e.g., Enterprise Recapitalization Accounts) that channel funds back to the CNO for reinvestment from money saved in execution. Further, the accounts could offer a “Share in Savings” approach in which commands could receive a substantial portion of their harvest for gain sharing purposes (to continue to motivate personnel to seek greater efficiencies). The transaction that returns a percentage of the contribution would occur between the Type Commander (TYCOM) and the contributing command.

Agreement at the Congressional level could pose a significant road block. That is, without language within the Appropriations/Authorization Act that specifically authorizes the use of Sea Enterprise savings for enterprise (CNO/CBC/N8) use only, the Navy will be limited in its flexibility. Ideally, such a clause would allow aggregated reporting to protect against decrements in future year budgets, and thus prevent efficient operations from being penalized. The advantages to implementing these accounts are that (1) they would provide a more capable means to manage and “account” for savings,

(2) they would incentivize commands to save since there would be no penalty for realizing savings, and (3) a percentage of the savings would be returned to them.

Congress should grant increased flexibility to the Department of Defense and the services in transfer authority in terms of amount, “time”, and “color” of money. Greater flexibility in these areas between appropriation accounts (e.g. between Operations and Maintenance and Procurement accounts) would allow for greater flexibility in “accounting” for savings and take advantage of a mechanism already in place to facilitate recapitalization. The Secretary of Defense has, in fact, requested such a change in the proposed Defense Transformation for the 21st Century Act. This Act reads:

...Upon a determination by the Secretary of Defense that such action is necessary in the national interest, each fiscal year he may transfer an amount not to exceed two and one-half percent of the total appropriations or funds appropriated to the Department of Defense for that fiscal year...

The Defense Transformation for the 21st Century Act

3. Communicate Recapitalization Successes

Sea Enterprise recapitalization successes should be communicated to contributing commands and throughout the entire Navy. By disclosing how Sea Enterprise savings are used, commands can begin to feel like meaningful contributors to the “process.” For example, during an execution year, an Echelon II command may be able to identify and realize savings, and return them to the enterprise. As a result, the Navy might be able to buy an F-18. The Navy could provide a certificate or similar form of appreciation to that command for contributing to the purchase of an F-18. Similarly, all commands that contributed to the purchase should be notified and be given formal recognition. This course of action would allow commands throughout the Navy to feel a sense of ownership and involvement in the “process” and will incentivize future savings endeavors.

4. Campaign of Transformation

The Navy should embark upon a decisive campaign of transformation in which leadership, performance goals, processes, workforce competencies, performance management, learning, and results are utilized as drivers to create a more agile, relevant, and efficient fighting force. A comprehensive program of transformation should be driven by people. Therefore, the Navy must identify its “change agents.” By estimates made by Jack Welch³⁶, real change agents comprise less than 10 percent of all businesspeople (and in the case of the Navy enterprise, this percentage may be smaller). “They (change agents) are true believers who champion change, know how to [execute], and love every second of the process (Welch, 2005).” According to Welch, a significant majority, about 70 to 80 percent, may not lead the charge, but once they are convinced change is necessary, they say, “OK already, get on with it.” Therefore, to lead this campaign of change, the Navy needs true believers at the top, and “get on with it types” everywhere else.

The Navy should invest in the people who are true believers in making sustained change and upending status quo as part of the Navy’s culture. Therefore, change agents should address the Navy from the standpoint of the people, structure, and tools, as well as broader cultural and behavioral issues that will drive the workforce and invoke change. Such a program should consider the following issues:

- Setting clear performance goals that determine the behaviors that people will be performing necessary for change.
- Defining the working processes that will support those goals, and adjusting the organizational structure to make processes visible, measurable and manageable.
- Identifying the skills and competencies the will lead to the right behaviors and outcomes.
- Creating performance measurement and reward systems that are aligned with business and performance goals and that properly motivate and incentivize behavior.
- Putting in place the right technologies to support collaboration and knowledge sharing. (Page and Pearson, 2004)

³⁶ Jack Welch is the former CEO (1981-2001) of the General Electric Company.

It is critical to attach every change or Sea Enterprise initiative to a clear purpose or goal. Changing just for change's sake is counterproductive and burdensome.

It is a disaster when companies take all the hype about change literally and grab every new management fad that comes down the pike. It's change overload! Some big companies (or large organizations) adopt ten different change initiatives at once and run in eight different directions. Nothing meaningful ever happens in these flavor-of-the-month kinds of situations except that, for most employees, work feels very frantic and disorganized

Jack Welch, 2005

In fact, change should be a relatively orderly process. Therefore, in order for this campaign to work (1) people must understand why change is necessary and where it will lead them, and (2) the Navy must develop a center for a dedicated and talented cadre that will help champion the change campaign. For purposes of this thesis, the author will call this center the Center for Navy Business Intelligence (CNBI).

a. Center for Navy Business Intelligence

Creating a Center for a Navy Business Intelligence type organization is a sound and necessary approach to change that the Navy could use in order to realize and sustain continuous transformation. The idea of CNBI is centered on continuous education, investment in research, and identifying the right people to provide intelligent change recommendations and assist in its execution. Further, the center would serve as a consortium to include the many stakeholders of Sea Enterprise to ensure collaboration occurs in the early stages. The center ought to be the CNO's change agent resource.

The CNBI should be lead by an individual known for his/her forward leaning attributes of the O-7 (perhaps retired) or above rank who will offer revolutionary leadership to its members and carry weight when issues are brought to the table for implementation. Potential CNBI members should be considered on a recommendation basis only from their reporting senior, and go through a rigorous interview process, with the final selection decision resting with the CNO. The Center should report directly to the CNO for change/transformational-related issues. It is not just a matter of students to perform research, but to create a center solely dedicated to broadening the issue of business process transformation by the best creative minds in the Navy organization. As

such, a core group of members could be fielded from the United States Naval Academy (USNA), the Naval Postgraduate School (NPS), the Naval War College (NWC), and select NROTC units. However, this list should not exclude other smart, innovative, and dedicated individuals from other academic institutions from consideration. The Center ought to comprise a spectrum of seasoned professionals, particularly in the Human Resource (HR) and Information Technology (IT) fields. Therefore, graduate degrees (to include MBAs) from NPS, NWC, and other accredited schools should be emphasized for CNBI members to incorporate an academic dimension to the Center. Additionally, all Navy designators should be represented to collaborate fleet experience and expertise with smart, educated public and private business professionals.

The Center should establish partnerships and launch programs with academic institutions and the private sector dealing with improving the innovative capability of a “public bureaucracy.” The Navy is a public bureaucracy that presents even greater challenges to cost-reducing initiatives because there is no competition. Therefore, partners of CNBI should include strong ties to public policy centers of excellence already in existence at the state and federal levels as well as other academic institutions. Additionally, CNBI should endeavor to spawn revolutionary ideas about organizational development and performance, and seed test beds within various organizations to determine their usefulness and perhaps more importantly, the extent to which the ideas are truly revolutionary and/or disruptive. CNBI should conduct field research to help create a “Value Index” for organizations. This concept would help the Navy evaluate the value of an organization and each of the services or products it delivers. Such a concept is vital to help leadership determine not only what the Navy should be doing, but perhaps more importantly, what the Navy should *not* be doing as the enterprise and the forces that influence it continue to change.

E. SUGGESTIONS FOR FUTURE RESEARCH

1. Uniformed and Civilian Workforce Feedback

Create a survey of the Navy workforce, to include both military and civilian personnel. The survey could be created to determine what impact Sea Enterprise has had

on the workforce. Such a survey would provide a qualitative assessment of the impact of the Sea Enterprise effort. It is essential that all Echelons of the Navy are represented to reflect its true effect. As a result of the research, it should be determined how best to embark on its communication campaign and market/brand Sea Enterprise.

2. Research and Develop Enterprise Resource Accounts

Even if Commanders are inclined to identify initiatives, search for efficiencies, and realize savings, they have little financial incentive to do so because those commands that save generally do not benefit from the savings. Further, when savings are identified, budgets are cut in future years. As such, a student could research and develop the idea of creating accounts (Enterprise Resource Accounts) that could channel funds back to the CNO for reinvestment from money saved from execution. Also, explore a “Share in Savings” approach in which commands could receive a substantial portion of their harvest for gain sharing purposes (to continue to motivate personnel to seek greater efficiencies). Currently, policies are not in place to allow such an account to function under the control of the CNO only. Therefore, it is critical to explore the possibilities of gaining Congressional approval to create such an account that will help incentivize and facilitate better management and “accounting” for savings.

3. Develop the Idea for a Center for Navy Business Intelligence

Creating a Center for Navy Business Intelligence (CNBI) is a sound and logical approach to change that the Navy should consider to realize and sustain continuous transformation. The idea of a CNBI is centered on continuous education, investment in research, and identifying the right people to provide intelligent change recommendations and assist in its execution. The center ought to be the CNO’s change agent resource. As such, a student could explore the different ways CNBI could be established as its own command. Further, it would be beneficial to research and develop a mission statement and vision for the organization to include specific goals and objectives. Another suggestion is to explore initial detailing options and funding requirements. Finally, a student could develop a proposal for the Center to include but not be limited to the

following areas: membership, feasibility, supportability, detail requirements, mission statement, vision, literature review, possible locations, and funding requirements.

F. AFTERWORD

Given the major changes to the geo-political world, rising operating costs, flat or even declining funding levels, and the GWOT and war in Iraq, the Navy must transform its structures, processes, and ways of doing business. As such, Sea Enterprise is an essential vehicle to change the culture, improve business processes, and harvest savings within the DON in support of the Sea Power 21 vision. It was not the primary purpose of this thesis to research and report on Sea Enterprise successes. Rather, this thesis aimed to determine if the Department of the Navy has realized the savings forecasted for the various Sea Enterprise initiatives and to surface the various fundamental issues and challenges associated with the effort.

Sea Enterprise is a critical enabler to realizing the vision of Sea Power 21. As such, the results of this research are intended to provide greater awareness and knowledge of the journey ahead. Further, this research is intended to provide positive tangible benefit to the Department of the Navy as a reference to be consulted when exploring lessons learned and when deciding on future initiatives to transform, recapitalize, and modernize the Naval force.

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